MILFORD

Milford KiwiSaver Plan Monthly Review
August 2018

Market and Economic Review

July was a mixed month for share markets with the MSCI World Total Return Index appreciating 3.1%, mainly boosted by the 5.2% rise in global bank stocks. The NZX didn't participate in the bank-led rally as our major banks are Australian owned and listed on the ASX.

The ASX 200 Accumulation Index gained 1.4% with the banks making the biggest contribution followed by industrials, telecoms and health care. On Wall Street, the Dow Jones Industrial Average rose 4.7%, S&P 500 Index 3.6% and Nasdaq 2.1%. Facebook's profit announcement at the end of the month was a major drag on the Nasdaq Composite Index.

Milford's funds performed reasonably well during the month with the Active Growth Fund up 1.0%, Balanced Fund 0.8% and Conservative Fund 0.4%. For the twelve months to 31 July, the Active Growth Fund appreciated 16.7%, Balanced Fund 11.5% and Conservative Fund 5.9%.

The bond components of these funds also had positive returns for the month. Bonds were boosted by the Reserve Bank of Australia decision to keep interest rates on hold while there were reduced concerns that the Bank of Japan would abandon its ultra-loose monetary policy.

Economic news was generally positive with the United States Bureau of Economic Analysis reporting that GDP grew at an annual rate of 4.1% in the second quarter of 2018. This strong growth rate reflected positive contribution from personal spending, exports, non-residential fixed investment and federal, state and local government spending.

New Zealand's economic data was mixed with building consents remaining strong but business confidence continues to decline. The deterioration in business confidence may be influenced by negative media commentary, rather than reality, because business people remain relatively optimistic about their own business activities.

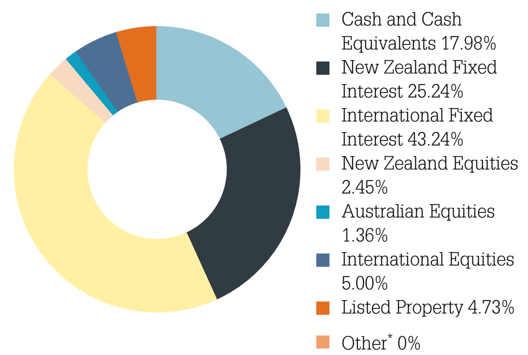
August will be an important month for your funds as most New Zealand and Australian companies release their earnings figures for the June financial year. We believe that the results will be reasonably positive but the outlook statements for the June 2019 financial year will be very important. Our portfolio managers will be closely scrutinising these results and outlook statements during the month and will take decisive action if there are any surprises.

Milford KiwiSaver Plan Monthly Review as at 31 July 2018

Conservative Fund

Portfolio Manager: Paul Morris

Actual investment mix[1]



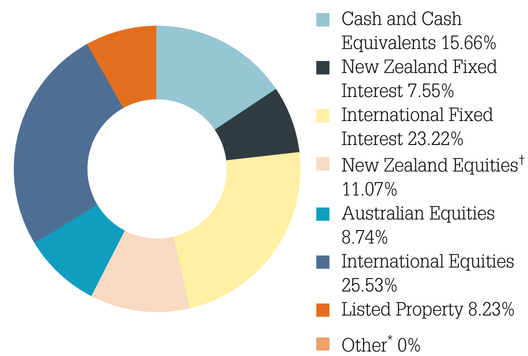
The Fund returned 0.4% in July and has returned 5.9% in the past year. Over the month there were moderate, but positive, returns across the broad asset classes into which the Fund is invested. After recent weakness, global corporate bonds posted a notably improved performance in July, even with government bond yields higher. After a period of outperformance, the return from Australasian corporate bonds was however lower.

There was also a positive contribution from the Fund's share allocation, which remains primarily to global shares and Australasian income shares. During the month, we further increased the Fund's overweight allocation to cash, above its long run neutral. While we remain cautiously optimistic for moderate Fund returns, we acknowledge ongoing risks (e.g. global trade wars, geopolitics), elevated valuations across many asset classes, and the fact we are deep into an economic cycle.

Considering the Fund's conservative risk profile, we therefore retain cautious positioning. We also remain wary of rising interest rates as central bank policy support wanes. Australasian cash rates may remain on hold for an extended period, but globally the probability remains for higher interest rates. This may weigh on both Australasian and global bond and income share returns. We will therefore continue to limit interest rate exposure to protect capital over time.

Balanced Fund

Portfolio Manager: Mark Riggall



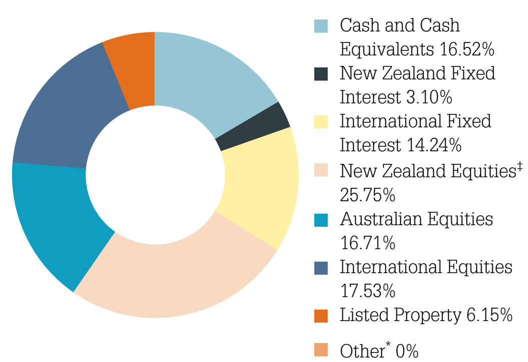
The Fund returned 0.8% in July, bringing the 1-year return to 11.5%. Global shares were the standout performers as US shares pushed to 5-month highs on the back of good profit growth. Local NZ and Australian markets were largely unchanged having had a strong run in previous months. Global company bonds performed well, making up some previous weakness and outperforming government bonds that were weaker in the month.

The NZ dollar was marginally higher as trade risks improved. The Fund continued to reduce share market exposure over the course of the month. Markets have enjoyed a good run, valuations are moderately elevated, global growth looks set to weaken and US-China trade risks remain unresolved. We continue to be wary of rising interest rates as global central banks reduce liquidity, and therefore the Fund continues to build a cash position. NZ economic data keeps deteriorating (albeit slowly) and share market valuations are most stretched in NZ and parts of the Australian market. The Fund remains underweight in these asset classes in particular.

Despite these concerns, in the medium term we still see global economic expansion, and therefore will use cash holdings to invest back into risky assets at more attractive levels. Looking ahead, we expect markets to be volatile and we will remain active at an asset class and stock level.

Active Growth Fund

Portfolio Manager: Jonathan Windust



The Fund rose 1.0% during the month benefiting from strong Global and Australian share markets up 3.1% and 1.4% respectively. These markets continue to benefit from good company earnings and investor demand, despite uncertainty and risk aversion caused by politics and trade wars. The NZ market fell 0.3% taking a breather after its strong recent gains.

Key company performers during the month were NZ companies, Ebos (+12.5%) and Delegats (+5.8%) and global companies, JPMorgan (+11.0%) and Alphabet (+8.7%). Ebos rose following a significant contract win with the Chemist Warehouse in Australia. JPMorgan, Delegats and Alphabet (Google's parent company) benefited from positive earnings updates. During the month, we generally took advantage of market strength to reduce our position in Australian and US shares, with our total exposure to shares falling to approximately 66%. We added to holdings in high yield bonds as yields rose to attractive levels. The outlook for shares is supported by good economic conditions and company earnings.

The key headwinds are concerns that we may be reaching a peak in growth and relatively full company valuations. Given these short-term headwinds we are likely to retain higher than typical cash levels until we can isolate attractive company investments.

[†] Includes unlisted equity holdings of 0.25% [‡] Includes unlisted equity holdings of 2.20% [*] 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.

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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%	5.86%	5.96%	8.84%	9.68%	1.6893	55.0 M
Balanced Fund	0.76%	11.52%	8.84%	10.95%	10.59%	2.2353	223.2 M
Active Growth Fund	0.95%	16.72%	12.04%	13.08%	13.25%	3.6109	1022.2 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)	-0.23%	17.31%	16.04%	15.92%	16.30%
S&P/ASX 200 Accumulation Index (AUD)	1.39%	14.59%	7.98%	9.17%	9.97%
S&P/ASX 200 Accumulation Index (NZD)	1.40%	17.44%	7.51%	8.46%	7.77%
MSCI World Index (local currency)*	3.15%	12.73%	8.87%	10.75%	11.40%
MSCI World Index (NZD)*	2.56%	23.21%	8.06%	12.97%	13.59%
S&P/NZX 90-Day Bank Bill Rate	0.18%	1.97%	2.31%	2.71%	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 2.13%	iShares MSCI EAFE Index Fund 3.29%	iShares MSCI EAFE Min Vol ETF 3.48%
Investore Property 4.40% 2024 1.41%	Vanguard Intl Select Excl Index Fund 1.93%	Contact Energy 2.54%
ASB Bank 6.65% 2024 1.37%	Contact Energy 1.39%	Spark New Zealand 2.12%
BNZ 3.375% 2021 1.27%	Spark New Zealand 1.34%	a2 Milk Company 1.91%
QBE 6.75% 2044 1.23%	a2 Milk Company 1.00%	Vanguard Intl Select Excl Index Fund 1.69%
Vector 4.996% 2024 1.06%	Wellington Strategic Euro^ 0.99%	CYBG 8% 2049 1.49%
NZLGFA 2.75% 2025 1.06%	Aventus Retail Property 0.93%	Delegat Group 1.40%
United Energy 3.85% 2024 0.99%	Energy Select SPDR 0.92%	Z Energy 1.37%
Auckland Council 3.17% 2023 0.97%	ASB Bank 5.25% 2026 0.87%	Boral 1.37%
Sydney Airport 3.76% 2020 0.97%	Antipodes Global Fund^ 0.84%	Mirvac Group 1.28%

^Externally managed fund.

Milford staff have approximately $9.1 million invested in the Milford KiwiSaver Plan as at the end of July 2018.

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Milford KiwiSaver funds continue to perform

The Morningstar KiwiSaver survey for the June Quarter 2018 shows that the three Milford KiwiSaver funds continue to be top performers. The following table illustrates this.

Morningstar June Quarter 2018 KiwiSaver Survey

	Active Growth		Balanced		Conservative	
	Return	Rank	Return	Rank	Return	Rank
1 year	16.5%	2/26	10.9%	2/25	5.8%	1/21
3 years	12.5%	1/22	9.3%	1/19	6.4%	1/16
5 years	13.3%	1/21	11.1%	1/18	9.0%	1/13
10 years	13.4%	1/17	-	-	-	-

The 3, 5 and 10 year figures are on a per annum basis. The ranking is against the other funds in the category.
Full results can be found at https://www.morningstar.com.au/s/documents/KiwiSaver_Survey-Q2-2018-Final.pdf.

The figures show that the three Milford funds rank at the top, or near the top, for the different periods compared with other funds in the growth, balanced and conservative sectors.

In the one year period, the Active Growth Fund was beaten by the Aon Milford Fund, another fund managed by Milford. The Aon Milford Fund had a 16.6% return for the twelve months to June 2018. All the returns figures are on an after fees basis.

There have been comments that Milford has been lucky and we don't dispute that. However, Milford believes that if you have the right strategy and employ high quality portfolio managers then you can make your own luck.

In other words, the more organised you are the luckier you are. Milford has a 23-person investment team, with seventeen in Auckland and six in Sydney, all dedicated to achieving superior investment returns.

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