MILFORD

Milford Unit Trust PIE Funds 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%, the Diversified Income Fund 0.6%, Trans-Tasman Equity Fund 0.5%, Balanced Fund 0.8%, Global Equity Fund 1.1%, Australian Absolute Growth Fund 0.8%, Conservative Fund 0.4% and Dynamic Fund 0.1%.

Milford's two bond funds, the Trans-Tasman Bond Fund and Global Bond Fund, also had positive returns for the month. Bond funds 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.

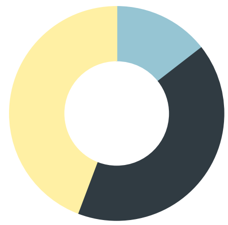
New Zealand's economic data was mixed with building consents remaining strong but business confidence continues to decline. The deterioration in business confidence may be influenced by negative media commentary, rather than reality, because business people remain relatively optimistic about their own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

Trans-Tasman Bond Fund

Portfolio Manager: Paul Morris

Actual investment mix[1]



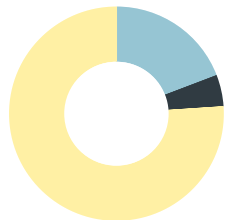
The Fund returned 0.2% in July, close to its benchmark's return. During the month, the Fund faced a slight headwind from marginally weaker Australasian corporate bond prices. This partially offset the Fund's earned yield, reducing returns.

For much of 2018, Australian corporate bonds have outperformed offshore peers. This was somewhat reversed in July. That has improved valuations relative to offshore. We acknowledge corporate bonds remain expensive historically, but factors such as supportive supply/demand may underpin near-term returns. Therefore, given recent price weakness we will look to deploy some of the Fund's overweight cash holding opportunistically. During July, we continued the strategic reduction of the Fund's exposure to lower rated bonds, however we did participate in the WEL Networks NZ dollar new issue.

Looking forward, we anticipate Australasian bonds may continue to outperform offshore peers. Shorter dated bond yields remain anchored by expectations for an extended period of unchanged NZ dollar and Australian dollar central bank cash rates. Longer dated bond yields will be more influenced by changes in global bonds. That could prove a headwind for returns, as risks remain for higher offshore yields as offshore central bank monetary policy normalises. To help protect capital over time we will continue to limit interest rate exposure below benchmark.

Global Bond Fund

Portfolio Manager: Paul Morris



July brought some respite from the pressure facing global corporate bonds. The market still had to contend with a move higher in government bond yields, but benefited from a contraction in credit spreads (the extra yield of corporate over government bonds). This was good news for the Fund which is primarily exposed to corporate bonds. It returned 0.5% in July, which was 0.4% more than its benchmark.

The improvement in corporate bond market performance was supported by a number of factors; a slowdown in new corporate bond issuance which had previously swamped a market suffering from lower demand, lower market volatility and reduced fears for a shock of higher government bond yields. We acknowledge that risks remain elevated (e.g. trade wars, geopolitics). Therefore, in the context of historically elevated valuations and an already long economic cycle, we remain moderately cautious. We have been, and will continue to improve the credit quality of the Fund's corporate bond holdings while reducing their tenor.

Near-term, an improved supply/demand backdrop, coupled with lower bond and share market volatility should underpin returns. Looking further out, the Fund may face a headwind from weaker monetary policy support, as inflation recovers. We will therefore continue to limit interest rate exposure and will look to reduce further exposure to credit spreads.

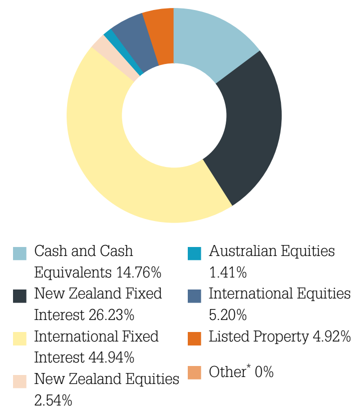
*Other may include interest rate derivatives and currency contracts.

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

Conservative Fund

Portfolio Manager: Paul Morris

Actual investment mix[1]



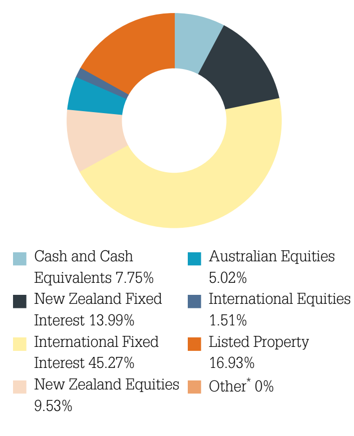
The Fund returned 0.4% in July and has returned 6.0% in the past year. Over the month there were moderate, but positive, returns across the broad asset classes into which the Fund is invested. After recent weakness, global corporate bonds posted a notably improved performance in July, even with government bond yields higher. However, after a period of outperformance, the return from Australasian corporate bonds was 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.

Diversified Income Fund

Portfolio Manager: David Lewis



The Fund rose 0.6% in July and has returned 8.3% in the past year. Returns this month were positive across the asset classes that the Fund is invested into, with the strongest contributions coming from global shares and global bonds. However, each of these sectors returned below 1%, demonstrating that overall, July was a moderate month for returns on income-oriented assets.

Highlights in the share portfolio included Australian property investment/development companies Mirvac (+5.0%) and Stockland (+4.5%), which both rose as market concerns regarding the Australian housing market receded. Spark also performed well, rising by 3.8%. Spark operates in competitive markets (broadband, mobile) and prospects for earnings growth are limited, however we believe it is a well-managed, low risk company with an attractive dividend. On the negative side, a2 Milk fell by 8.8%, giving back gains from June. a2 Milk is a higher growth, and higher risk company, and accordingly the size of the Fund's position is moderate at 0.5%.

In portfolio activity this month, the Fund added a new position in Unibail-Rodamco. This is a global shopping mall owner and developer listed in Australia, where we see attractive valuation and earnings growth prospects. In terms of strategy, the Fund retains a modestly cautious approach, while at the same time continuing to search for attractive individual company opportunities both in shares and bonds.

*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 Unit Trust PIE Funds Monthly Review as at 31 July 2018

Balanced Fund

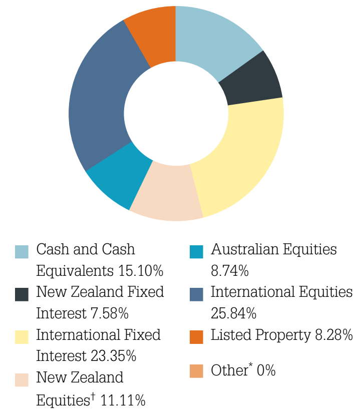
Portfolio Manager: Mark Riggall

The Fund returned 0.8% in July, bringing the one-year return to 11.4%. 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.

Actual investment mix[1]



Active Growth Fund

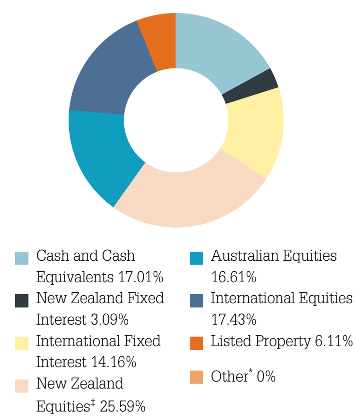
Portfolio Manager: Jonathan Windust

The Fund rose 1% 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 0.2% 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.

Please note this Fund is closed to new investors.



†Includes unlisted equity holdings of 0.25% ‡Includes unlisted equity holdings of 2.30% *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.

Australian Absolute Growth Fund

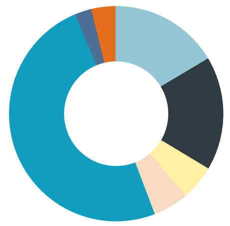
Portfolio Manager: William Curtayne

The Fund returned 0.8% over the month. July is traditionally a quiet month, but this year we had two of the Fund's investments – Corporate Travel Management and Pinnacle Investment Management Group – raising capital. Corporate Travel acquired a competing travel agency in Hong Kong, while Pinnacle acquired minority holdings in two new investment businesses. We participated in both deals and were pleased to see both perform strongly following the acquisitions.

Other notable performances included Credit Corp, which rallied 13.9% on the back of a good result with positive commentary, and Vista which rallied 9.7% on no significant news. On the negative side, a2 Milk fell 8.8% following a trading update. The trading performance was largely in line with expectations, but the share price declined as the market took a more cautious view on future growth. The Australian banks' share prices have continued to slowly recover, following a strong bounce from their lows in June. One of the next key events will be the royal commission interim report, due by the end of September. We have held the NAB and CBA shares we acquired in June.

The Fund's equity exposure drifted a bit lower over the month. Australian companies are reporting their 2018 financial year results in August, so we expect some opportunities for new investments to emerge over the month.

Actual investment mix[1]



Global Equity Fund

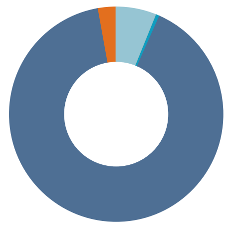
Portfolio Manager: Felix Fok

The Fund was up 1.1% in July, bringing the one-year return to 14.3%. Despite the noise around trade tensions, share markets were buoyed by strong economic growth data in the US.

The biggest positive contributor was Alphabet (+8.7%), the parent company of Google. The NZ$1.25tn media-advertising company continues to grow strongly and profitably at 20% a year. YouTube has been a phenomenal success since it was acquired for a mere NZ$2bn in 2006 and has extended the company's dominance beyond answering queries. In addition, Alphabet offers upside through its research projects, such as self-driving cars and voice-based virtual assistant.

The biggest detractors to performance were US quarry names Martin Marietta (-10.7%) and Vulcan Materials (-13.2%). Both companies traded weaker after reporting results on fear of cost inflation from fuel and trucking. As it is difficult to get permits for new quarries, we expect these asset owners to have the leverage to raise prices over time to cover costs. July was a difficult month for our external managers; the standout was healthcare specialist Hawkes Bay (+2.7%). Our more defensive managers, GMO & Magellan Infrastructure, underperformed in July as investors rotated into higher risk areas like financials & industrials.

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.

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

Trans-Tasman Equity Fund

Portfolio Manager: Sam Trethewey & Wayne Gentle

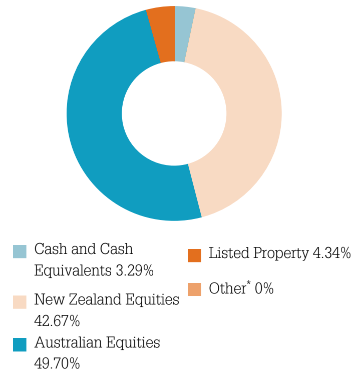
The Fund returned 0.5% in July, benefiting from strength in the Australian equity market (+1.4% in local currency) and good stock selection. The NZ equity market took a breather this month, finishing down 0.2%. The Fund has returned 20.5% over the past year.

Key highlights for the Fund included Credit Corp (+13.9%) and Vista Group (+9.7%). Credit Corp announced an excellent financial result driven by strong growth in the US. Vista Group continued to be well supported following a bullish broker initiation which highlighted the value in Vista's core cinema business. a2 Milk fell 8.8% after the company provided a trading update confirming FY18 revenue slightly above prior guidance, however outlook comments indicated margins for FY19 could be slightly below current market expectations.

During the month, the Fund participated in a capital raising by Gentrack, a billing software provider for utilities, and purchased new positions in Tabcorp and Unibail. Z Energy was also added to the Fund following a pullback on short-term headwinds. We continued to trim Scentre, a shopping centre operator, and Fletcher Building into strength.

Looking ahead, August is reporting season for a many of the large caps across our local equity markets. Our focus will be on outlook statements, confirming whether each company's medium-term prospects remain intact.

Actual investment mix[1]



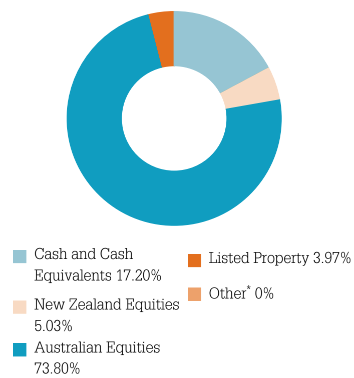
Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins

July was a stable month for the Fund returning 0.1% and consolidating a 7.0% return for the quarter. In a traditionally quiet month, multiple positive company updates combined with elevated cash levels delivered an 0.7% outperformance of our benchmark.

Performance was led by companies such as Pinnacle Investments (+15.3%), Corporate Travel Management (+5.1%), EML Payments (+17.7%) and Creditcorp (+13.9%). Corporate Travel acquired a competing travel agency in Hong Kong while Pinnacle acquired minority holdings in two new investment businesses. Impressively, Corporate Travel is now the largest corporate travel provider in Hong Kong to broader China. We participated in both deals and were pleased to see both their share prices perform strongly following the acquisitions.

Creditcorp rallied on delivery of a solid result with positive commentary and EML finalised a deal with German mall giant ECE which underpins FY19 earnings. Detractors for the month largely lacked news flow. These included infant formula provider Bellamy's (-29.2%), gold producer Evolution Mining (-20.5%) and adventure travel provider Experience Co (-16.4%). The Funds elevated cash weighting leaves us well positioned to take advantage of the expected market volatility of reporting season.



Upcoming Distributions	Target	Payment Date
Trans-Tasman Bond Fund	0.75 cents (Quarterly)	20/09/2018
Global Bond Fund	0.75 cents (Quarterly)	20/09/2018
Conservative Fund	0.75 cents (Quarterly)	18/10/2018
Diversified Income Fund	1.6 cents (Quarterly)	21/08/2018
Trans-Tasman Equity Fund	1.5 cents (Biannually)	20/09/2018

*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 Unit Trust PIE Funds Monthly Review as at 31 July 2018

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*^	0.22%	4.23%	4.31%	—	5.56%	1.1168	386.7 M
Global Bond Fund*^	0.48%	2.17%	—	—	4.46%	1.0219	318.1 M
Conservative Fund*	0.43%	6.03%	—	—	6.69%	1.1139	193.0 M
Diversified Income Fund*	0.59%	8.30%	9.60%	11.07%	11.75%	1.6887	1863.3 M
Balanced Fund	0.75%	11.37%	8.61%	10.57%	10.33%	2.1934	569.0 M
Active Growth Fund#	0.96%	16.71%	11.81%	12.92%	13.15%	3.5789	996.7 M
Australian Absolute Growth Fund	0.84%	—	—	—	—	1.0492	77.6 M
Global Equity Fund	1.14%	14.25%	5.71%	8.65%	8.80%	1.5535	447.4 M
Trans-Tasman Equity Fund*	0.54%	20.49%	14.43%	13.96%	11.52%	2.7196	368.8 M
Dynamic Fund	0.13%	24.82%	13.25%	—	14.18%	1.8810	229.1 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.
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: 2 December 2013, Conservative Fund: 1 September 2015, Global Bond Fund: 1 February 2017, Australian Absolute Growth Fund: 1 March 2018.
*Performance figures include the reinvestment of the Funds' distribution.
^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.
#The Active Growth Fund is closed to new investors.

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)

Trans-Tasman Bond Fund	Global Bond Fund	Conservative Fund	Diversified Income Fund	Balanced Fund
NZLGFA 2.75% 2025 2.26%	Microsoft 2.875% 2024 2.53%	Westpac Float 2028 2.22%	Contact Energy 2.16%	iShares MSCI EAFE Index Fund 3.30%
Auckland Council 3.17% 2023 2.09%	Westpac Float 2028 1.97%	Investore Property 4.40% 2024 1.47%	Aventus Retail Property 2.09%	Vanguard Intl Select Excl Index Fund 1.92%
ANZ Term Deposit 3.23% 12/18 1.95%	Citigroup 5.95% 2049 1.68%	ASB Bank 6.65% 2024 1.43%	ASB Bank 5.25% 2026 2.08%	Contact Energy 1.40%
ASB Bank 6.65% 2024 1.93%	HSBC Float 2024 1.54%	BNZ 3.375% 2021 1.32%	Spark New Zealand 1.91%	Spark New Zealand 1.35%
Vector 4.996% 2024 1.92%	Sprint Spectrum 4.738% 2025 1.45%	QBE 6.75% 2044 1.28%	Westpac 4.695% 2026 1.75%	a2 Milk Company 1.00%
United Energy 3.85% 2024 1.89%	Bank of America 6.10% 2025 1.43%	Vector 4.996% 2024 1.10%	Argosy Property 1.74%	Wellington Strategic Euro^ 1.00%
Westpac 3.795% 2021 1.87%	Optus 3.25% 2022 1.41%	NZLGFA 2.75% 2025 1.10%	Kiwi Property Group 1.65%	Aventus Retail Property 0.94%
Downer Group 5.75% 2018 1.83%	JPMorgan 5.15% 2023 1.39%	United Energy 3.85% 2024 1.03%	Charter Hall Group 1.64%	Energy Select SPDR 0.92%
BNZ 3.375% 2021 1.77%	BNZ 3.375% 2021 1.38%	Auckland Council 3.17% 2023 1.01%	Meridian Energy 1.51%	ASB Bank 5.25% 2026 0.87%
Suncorp-Metway 3.75% 2019 1.73%	Swiss Re 5.75% 2050 1.36%	Sydney Airport 3.76% 2020 1.01%	Mirvac Group 1.45%	Antipodes Global Fund^ 0.85%

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 3.46%	ANZ Term Deposit 2.04% 08/2018 7.35%	Wellington Strategic Euro^ 5.13%	a2 Milk Company 5.48%	Coporate Travel Mgmt 4.07%
Contact Energy 2.53%	ANZ Term Deposit 2.14% 09/2018 4.90%	Antipodes Global Fund^ 4.35%	BHP Billiton 4.28%	Credit Corp Group 3.58%
Spark New Zealand 2.11%	Orora 3.83%	Energy Select SPDR 4.22%	Commonwealth Bank of Australia 4.17%	Smartgroup Corp 3.34%
a2 Milk Company 1.89%	Credit Corp Group 3.32%	Wellington Wolf Creek Shares^ 4.17%	Fisher & Paykel Healthcare 3.37%	Pinnacle Investment Mgmt 3.30%
Vanguard Intl Select Excl Index Fund 1.68%	Origin Energy 3.28%	Hawkes Bay Investors^ 4.09%	National Australia Bank 3.24%	Collins Foods 3.07%
CYBG 8% 2049 1.48%	Boral 2.93%	Magellan Infrastructure^ 4.03%	Spark New Zealand 3.19%	Seven Group Holdings 3.02%
Delegat Group 1.39%	Collins Foods 2.68%	GMO Systematic Global Macro^ 3.87%	Westpac Banking Corp 3.02%	Boral 2.49%
Z Energy 1.36%	National Australia Bank 2.51%	iShares Russell 2000 3.16%	Boral 2.66%	Australian Finance Group 2.41%
Boral 1.36%	Commonwealth Bank of Australia 2.40%	Vontobel Sust. EM Leaders^ 3.01%	Contact Energy 2.58%	Origin Energy 2.25%
Mirvac Group 1.27%	Transurban Group 2.37%	Euro Stoxx 50 ETF SPDR 2.82%	Fletcher Building 2.38%	AUB Group 2.19%

^Externally managed fund.

Milford and Milford staff have approximately $32.4 million invested across our Unit Trust PIE Funds as at the end of July 2018.

Level 17, 41 Shortland Street, Auckland
PO Box 960, Shortland Street, Auckland 1140
Free phone **0800 662 345**
milfordasset.com

MILFORD