MILFORD

Milford KiwiSaver Plan Monthly Review
September 2018

Market and Economic Review

August was a positive month for your funds with the New Zealand share market appreciating 4.4%, the Australian market 1.4% and the MSCI World Index 1.3%. The strong performances were boosted by positive company results for the periods ended 30 June.

The New Zealand results were broadly in line with consensus with Summerset, Skellerup and Metlifecare exceeding forecasts while Tourism Holdings, NZX and NZME were below expectations. Trade Me, a2 Milk and NZ Refining share prices responded positively to their results while the NZME share price dropped sharply after its disappointing result.

NZ outlook statements were reasonably positive although there are clear signs that economic growth is slowing with negative media comments on business confidence exacerbating a more cautious sentiment.

Australian results were also in line with forecasts with one broker calling them “not too hot, not too cold”.

There were several big winners and losers across the Tasman with CSL, Bapcor, Afterpay Touch and WiseTech Global all experiencing strong share price rises after their profit announcements. Energy, mining and bank share prices underperformed although the latter was mainly due to media coverage of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The Australian results were characterised by widespread increases in dividend payments and share buybacks.

US corporate earnings were also strong with S&P 500 companies reporting a 25% increase in earnings per share for the June quarter compared with the June 2017 quarter. An estimated 8% of this was due to President Trump’s tax cuts with the remaining 17% due to robust growth across the US economy.

A notable feature of the results was the impressive performance of traditional retailers, reflecting growing consumer confidence throughout the world’s largest economy.

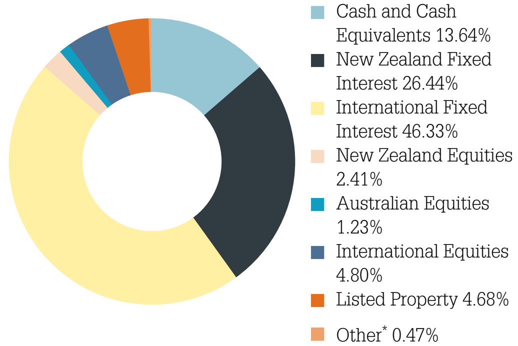
The only soft spot, according to the US Commerce Department, was that the overseas earnings of US companies eased in the June quarter compared with the previous quarter.

Although corporate earnings are positive, there are clear signs that economic growth is slowing in many countries. This is a reminder that KiwiSaver investors, particularly those over 60, should ensure that they are invested in the funds that reflect their age and risk profile.

Conservative Fund

Portfolio Manager: Paul Morris

Actual investment mix[1]



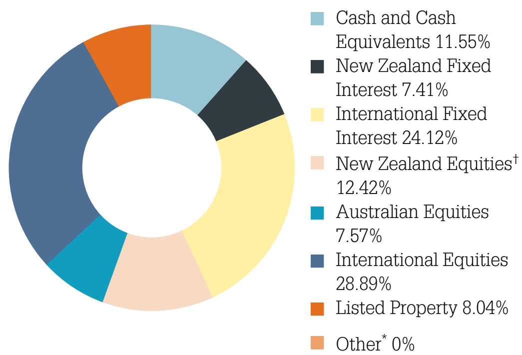
The Fund returned 0.9% in the month, contributing to a 5.9% return over 1 year. In August corporate bonds benefited from falling bond yields, underpinning a larger return than recently. NZ dollar bond performance was especially notable as the Reserve Bank of Zealand pushed its expectation for an unchanged Official Cash Rate well into 2020, longer than market expectations. Falling yields also supported the Fund's income shares, albeit returns were smaller than from the Fund's global shares (which are growth focused).

The Fund retains a small foreign currency exposure which continues to contribute on NZ dollar weakness. Since a sharp rise in early 2018, offshore bond yields have moved sideways. Bonds found demand away from risks, such as tariff wars, but also due to moderating global growth, contained inflation and reduced expectations for central bank tightening. Looking forward, we are still limiting Fund interest rate exposure, wary of an eventual move higher in offshore yields which would also negatively impact Australasian bonds.

We remain cautiously optimistic for moderate Fund returns but acknowledge elevated valuations across myriad asset classes and ongoing elevated risks, especially deep into this economic cycle. Considering the Fund's conservative risk profile, we therefore retain cautious positioning with less shares than the Fund's long-run neutral.

Balanced Fund

Portfolio Manager: Mark Riggall



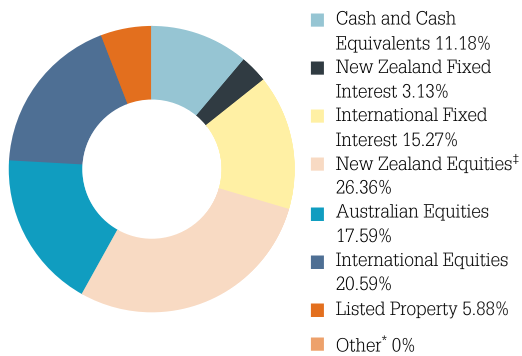
The Fund returned 1.4% in August, bringing the 1 year return to 11.2%. Growth shares in the US and Australia were the highlight this month as global markets continue to be buffeted by trade headlines and volatile emerging market countries. US shares continue to perform well, especially the technology and growth stocks that are largely insulated from trade frictions.

Australian reporting season saw Australian companies delivering underwhelming results in aggregate, driving investors to chase the high growth names, pushing these stocks to extended valuation levels. The recent Australian political developments were largely ignored by the share market but added to the woes of the Australian dollar. The looming election (by May 2019) represents an increasing risk to the Australian market. NZ shares also delivered results recently. Whilst there was little to get too excited about, the earnings growth and cashflow generation can sustain the valuations of NZ shares at their current levels.

Global interest rates continue to remain low as inflation is only gradually creeping higher. This allowed our income investments to have a solid month, complimenting the returns from growth assets. Going forward, we remain cautious and are moderately defensively positioned. We still see opportunities to remain invested but expect that markets could be more volatile in the months ahead.

Active Growth Fund

Portfolio Manager: Jonathan Windust



The Fund rose 1.7% during the month benefiting from strong share market returns with New Zealand and Global shares up 4.4% and 1.3% respectively. The Funds investment in the Milford Dynamic Fund performed particularly well, rising 5.0%. Markets continue to benefit from good company earnings and strong investor demand.

Key company performers during the month were a2 Milk, Delegats and Trade Me. All three reported good earnings results and importantly provided positive outlook statements. In general, the market continues to reward companies with strong growth momentum despite, in some cases, very high valuations. It was a busy month with a large percentage of our companies reporting earnings. Results were generally solid with limited surprises or impact from the large drop in New Zealand business confidence.

During the month we took advantage of opportunities to deploy cash; including a2 Milk and Ebos which we believe have good growth outlooks and very strong management teams. The outlook for shares is supported by good economic conditions, company earnings and positive investor sentiment. The key headwind being concerns of a peak in growth and relatively full company valuations. Given this backdrop, the strategy of the Fund remains active to adjust to changing market conditions and to isolate companies with attractive risk/return trade-offs.

† Includes unlisted equity holdings of 0.24% ‡ Includes unlisted equity holdings of 2.11% * 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 August 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	0.86%	5.92%	6.58%	8.95%	9.69%	1.7036	58.4 M
Balanced Fund	1.36%	11.23%	9.96%	11.24%	10.65%	2.2650	233.4 M
Active Growth Fund	1.70%	16.79%	12.86%	13.29%	13.31%	3.6705	1074.6 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)	4.47%	20.53%	19.54%	16.92%	17.36%
S&P/ASX 200 Accumulation Index (AUD)	1.42%	15.40%	11.46%	8.94%	10.50%
S&P/ASX 200 Accumulation Index (NZD)	1.31%	13.61%	10.46%	7.74%	8.31%
MSCI World Index (local currency)*	1.34%	14.08%	11.89%	11.51%	12.73%
MSCI World Index (NZD)*	3.88%	22.09%	10.19%	13.67%	15.03%
S&P/NZX 90-Day Bank Bill Rate	0.16%	1.96%	2.28%	2.70%	2.70%

*With net dividends reinvested

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

Conservative Fund	Balanced Fund	Active Growth Fund
NZLGFA 2.75% 2025 1.95%	iShares MSCI EAFE Index Fund 3.82%	iShares MSCI EAFE Min Vol ETF 3.38%
QBE 6.75% 2044 1.58%	Vanguard Intl Select Excl Index Fund 1.92%	a2 Milk Company 3.00%
Investore Property 4.40% 2024 1.42%	a2 Milk Company 1.52%	Contact Energy 2.36%
ASB Bank 6.65% 2024 1.39%	Contact Energy 1.44%	Spark New Zealand 2.03%
BNZ 3.375% 2021 1.32%	Spark New Zealand 1.29%	Vanguard Intl Select Excl Index Fund 1.67%
ING Float 2021 1.28%	Wellington Strategic Euro^ 0.96%	CYBG 8% 2049 1.63%
Spark New Zealand 3.37% 2024 1.22%	Aventus Retail Property 0.86%	Delegat Group 1.61%
Suncorp Float 2028 1.18%	Meridian Energy 0.85%	Z Energy 1.43%
Vector 4.996% 2024 1.08%	ASB Bank 5.25% 2026 0.85%	Westpac 5% 2027 1.28%
Barminco Finance 6.625% 2022 1.04%	Antipodes Global Fund^ 0.81%	Boral 1.26%

Note: Fixed interest securities are reported in the following format: Issuer name, interest (coupon) rate, maturity year, size of fund holding (as % of total portfolio).
^Externally managed fund.

Milford staff have approximately $9.6 million invested in the Milford KiwiSaver Plan as at the end of August 2018.

KiwiSaver Funds - asset allocation is very important

One of the key decisions with any investment portfolio is asset allocation. That is the percentage of funds allocated to each specific investment area.

The following table shows the asset allocation for the three Milford KiwiSaver funds as at the end of August and their returns, after fund fees, for the past twelve months.

Milford KiwiSaver funds: Asset allocations (As at 31 August 2018)

	Active Growth	Balanced	Conservative
NZ Equities	28%	15%	4%
Australian Equities	20%	12%	4%
Global Equities	20%	30%	6%
Private Equity	2%	-	-
Growth Assets	**70%**	**57%**	**14%**
Bonds	19%	31%	73%
Cash	11%	12%	13%
Income Assets	**30%**	**43%**	**86%**
Total	**100%**	**100%**	**100%**
Twelve-month Return*	**16.8%**	**11.2%**	**5.9%**

* Returns are based on a 0% PIR.

The Active Growth Fund has benefited from the c.70% allocation to growth assets, particularly to the NZX. The NZX had a gross return of 19.1% for the twelve months to the end of August, compared with 15.4% for the ASX 200 Accumulation Index and 14.1% for the MSCI World Net Total Return Index.

By contrast, the Conservative Fund has only 14% allocated to growth assets with 73% allocated to bonds.

KiwiSaver investors can allocate their funds to just one Milford KiwiSaver fund or they can spread their investments across the three Milford KiwiSaver funds.

Most often this decision should be based on risk tolerance and age. Generally, members nearing retirement should consider switching their investments towards the lower end of the risk scale while younger investors shouldn't need to take this more cautious approach.

Younger KiwiSaver members, particularly those under 40, should generally stick to growth funds, particularly if they are fully employed and contributing to the scheme. These contributions can take advantage of any market downturn by investing in funds at lower unit prices and, subsequently, taking advantage of any market recovery.

Disclaimer: This is intended to provide general information only. It does not take into account your investment needs or personal circumstances. It is not intended to be viewed as investment or financial advice. Should you require financial advice you should always speak to an Authorised Financial Adviser. Please note past performance is not a guarantee of future performance.

Level 17, 41 Shortland Street, Auckland
PO Box 960, Shortland Street, Auckland 1140
Free phone **0800 662 346**
milfordasset.com

MILFORD