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Milford Unit Trust PIE Funds 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.

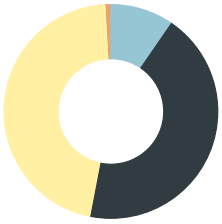
The only soft spot, according to the US Commerce Department, was that the overseas earnings of US companies eased in the June quarter compared with the previous quarter.

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

Trans-Tasman Bond Fund

Portfolio Manager: Paul Morris

Actual investment mix[1]



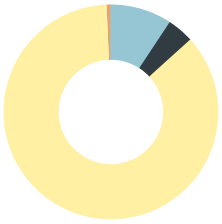
August was a reasonable month for global bond markets as yields generally fell. NZ dollar bonds were one of the best performers, as the Reserve Bank of Zealand outlined it now anticipates an unchanged Official Cash Rate well into 2020, longer than market expectations. The Reserve Bank also described a greater chance of actually cutting rates, a scenario the market is now starting to price.

Australian bonds also performed well but lagged NZ dollar bonds. We had increased the Fund's interest rate exposure closer to that of its benchmark, so it benefited from these falling yields. This underpinned the Fund's August return of 0.8%, in line with its benchmark. During the month we continued our existing strategy of reducing Fund exposure to more expensive lower rated bonds, as the extra yield is now less attractive. We remained active in the primary market, including participating in an attractively priced Suncorp Group bond in Australian dollars.

Looking forward, the extended period of unchanged, or even looser, Australasian monetary policy may continue to allow Australasian bonds to outperform offshore peers. Nevertheless, we remain wary of eventual higher offshore yields, and their impact on Australasian bonds. Therefore we retained a small negative exposure to US dollar interest rates, to benefit if US interest rates continue to rise.

Global Bond Fund

Portfolio Manager: Paul Morris



The Fund returned 0.5% in August as global developed world bond yields generally fell. Bonds have 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.

As the Fund's interest rate exposure had been moved closer to neutral, it increasingly benefited from this fall in yields. That said, as the risk of higher bond yields remains, the Fund's interest rate exposure remains less than its benchmark's. Relative to benchmark, the Fund is typically more exposed to corporate bonds, which we believe will outperform government bonds over time. In August, credit spreads (the extra yield of corporate over government bonds) were slightly wider, reversing some of July's tightening. That headwind was more than offset by the higher corporate bond yield, and the Fund outperformed its benchmark by 0.2%.

Looking forward, economic growth remains supportive for further corporate bond outperformance but considering elevated valuations and the already long economic cycle we remain moderately cautious. We have improved the credit rating of corporate bond holdings and reduced tenor. Next year, waning monetary policy support may be a headwind (for both corporate and government bonds) so we will continue to limit interest rate exposure and reduce 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

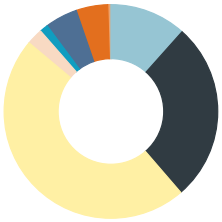
Portfolio Manager: Paul Morris

The Fund returned 0.9% in the month, contributing to a 6.1% 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.

Actual investment mix[1]



- Cash and Cash Equivalents 11.60%
- Australian Equities 1.26%
- New Zealand Fixed Interest 27.07%
- International Equities 4.91%
- International Fixed Interest 47.43%
- Listed Property 4.79%
- New Zealand Equities 2.46%
- Other* 0.48%

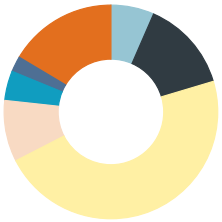
Diversified Income Fund

Portfolio Manager: David Lewis

The Fund had a solid month, up 0.9% to give a return of 7.8% in the past year. Share markets rose globally, with generally strong gains in growth oriented companies, outperforming returns for the more stable lower-risk companies in which the Fund typically invests. Returns in bond markets were moderately positive.

Among our share holdings, key performers in August were Bingo (an Australian waste/recycling company, +20.3%), a2 Milk (+20.7%), and Goodman Group (property, +11.1%). Bingo rose following the acquisition of a competitor in Sydney, while a2 Milk reported strong earnings under its newly appointed CEO. The key negative was Origin Energy, the Australian electricity and gas company, which reported weak profits leading to an 18.6% decline. This was very disappointing; however the position was only moderate (0.7% of the Fund) and we were able to sell most of the holding shortly after the result, which helped reduce the impact on the Fund. This is a good example of the benefits of our active management approach.

Looking ahead, the Fund retains a modestly cautious strategy given the combination of higher market valuations and a reduction in global monetary policy support. However, we still believe there are attractive individual company opportunities available in both share and bond markets and we will continue to work hard to uncover these on behalf of our clients.



- Cash and Cash Equivalents 6.54%
- Australian Equities 4.48%
- New Zealand Fixed Interest 13.84%
- International Equities 2.36%
- International Fixed Interest 47.07%
- Listed Property 16.44%
- New Zealand Equities 9.27%
- Other* 0%

*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.

Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 1.4% in August, bringing the 1 year return to 11.1%. 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.

Actual investment mix[1]

- Cash and Cash Equivalents 12.14%
- Australian Equities 7.39%
- New Zealand Fixed Interest 7.34%
- International Equities 28.86%
- International Fixed Interest 23.96%
- Listed Property 7.98%
- New Zealand Equities[†] 12.33%
- Other[*] 0%

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.

Please note this Fund is closed to new investors.

- Cash and Cash Equivalents 11.13%
- Australian Equities 17.60%
- New Zealand Fixed Interest 3.13%
- International Equities 20.60%
- International Fixed Interest 15.28%
- Listed Property 5.89%
- New Zealand Equities[‡] 26.37%
- Other[*] 0%

[†]Includes unlisted equity holdings of 0.24% [‡]Includes unlisted equity holdings of 2.21% [*]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

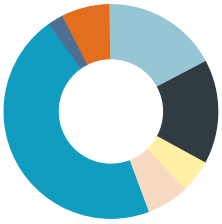
Portfolio Manager: William Curtayne

Company full year results were the focus for the Australian share market in August. This month small companies outperformed with the ASX Small Industrials Accumulation Index rallying 4.4% compared to 1.3% by the ASX 100 Accumulation Index, which represents larger companies. Healthcare and technology companies were particularly strong performers as the market continues to pay higher and higher valuations for the expected growth from these companies. The valuations currently ascribed to some healthcare and technology companies are extremely high, meaning they will likely perform very poorly in market downturns.

The Australian Absolute Growth Fund returned 1.4% during the month. Our worst performers were Experience Co and Origin Energy, down 26.6% and 18.6% respectively. Skydive operator Experience Co delivered a reasonable result but disappointed on the outlook for the next year. Origin Energy disappointed the market with the earnings and outlook for its electricity market performance. We reduced our investment in Origin and invested more in Woodside Petroleum as our preferred energy business.

Our top returning investment was Pro Medicus, which owns a leading software solution used in medical imaging by hospitals. Pro Medicus rallied 21.3%. Investment platform operator HUB24 rallied 18.7% on a positive outlook for more inflows. Other strong results came from Alliance Aviation (+18.2%), Pinnacle Investments (+19.1%), the a2 Milk Company (+20.7%), Bingo Industries (+20.3%) and Corporate Travel Management (+13.9%).

Actual investment mix[1]



- Cash and Cash Equivalents 17.30%
- Australian Equities 45.73%
- New Zealand Fixed Interest 15.67%
- International Equities 2.33%
- International Fixed Interest 4.96%
- Listed Property 7.24%
- New Zealand Equities 6.41%
- Other* 0.36%

Global Equity Fund

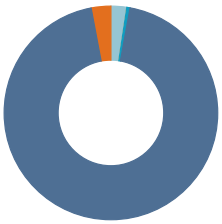
Portfolio Manager: Felix Fok

The Fund was up 2.0% in August, bringing the 1 year return to 14.2%. The biggest positive contributor was Amazon.com (+13.2%). They continue to benefit from structural positives in online shopping and shared computing for businesses. Mastercard (+8.9%) was also a top contributor. US consumers are buoyed by strong employment which drives card spending.

The biggest detractor to performance was Metro Bank (-13.0%). Metro is a challenger to the well-established, profitable UK high street banks. The company continues to grow but is buffeted by sentiment surrounding Brexit – UK's pending exit from the European Union.

August was a mixed month for external managers. Value-focused Antipodes Global (+1.6%) had a difficult month as its Asia biased portfolio struggled to keep up with US strength. The Fund also redeemed from absolute return manager GMO Systematic Global Macro Trust (-2.4%).

Overall, economic growth has moderated from a high level but remains healthy. Concerns over inflation and protectionism are likely to lead to a bumpier road ahead.



- Cash and Cash Equivalents 2.38%
- Listed Property 2.97%
- Other* 0%
- Australian Equities 0.49%
- International Equities 94.16%

*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

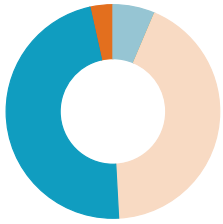
The Fund returned 3.0% in August, benefiting from strength in the New Zealand equity market (+4.4%) and good stock selection. The Australian equity market also rallied but at a slower pace of 1.4%. The Fund has returned +20.0% over the past 12 months.

Over August a large number of our companies reported earnings for the prior six months. Overall, earnings largely met market expectations, subsequent analyst earnings revisions were reasonably balanced and most management teams remained optimistic about the outlook.

Key highlights for the Fund included a2 Milk (+20.7%) and Bingo Industries (+20.3%). a2 Milk's results announcement provided investors confidence that recent sales channel issues had cleared and the new CEO impressed. Bingo announced an equity placement to fund an acquisition further cementing their dominant position. Origin Energy (-18.6%) was a disappointment on the back of weaker FY19 guidance and a change in accounting treatment of electricity hedges.

During the month the Fund participated in the equity raising in Bingo Industries and increased our holding in Fisher & Paykel Healthcare following a fall in the NZ dollar. Profit was taken on Xero following very positive sentiment towards tech stocks. Lend Lease was also trimmed into strength. Looking ahead, we will continue to focus on stock selection and opportunities created by the earnings season.

Actual investment mix[1]



Cash and Cash Equivalents 6.39%
Listed Property 3.47%
New Zealand Equities 42.76%
Other* 0%
Australian Equities 47.38%

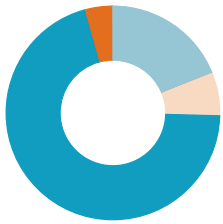
Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins

August was exceptionally strong for the Fund returning 5.0%. We were pleased to outperform the small cap industrial benchmark by 0.6% and the broader small ordinaries by 2.5%. While outperformance was widespread across many of our high conviction stocks, we managed to avoid the major blow ups which littered reporting season.

Winners for the month comprised a healthy blend of both growth and value companies including: Bingo Industries (+20.3%), Pinnacle Investments (+19.1%), Corporate Travel Management (+13.9%), Credit Corp (+12.2%) and HUB24 (+18.7%). Bingo announced an equity raise to fund the acquisition of competitor Dial-a-Dump Industries. The acquisition adds growth potential to the group, positioning it well for the medium-to-longer-term. Other performers all delivered strong earnings and/or upgraded guidance.

Underperformers were Experience Co and Origin Energy, down 26.6% and 18.6% respectively. Skydive operator Experience Co delivered a reasonable result but disappointed on the outlook for the next year. Origin Energy disappointed the market with the earnings and outlook for its electricity market performance. We reduced our investment in Origin. Looking forward, we continue to identify pockets of value in the market and will invest cash appropriately. That said, we are likely to retain elevated cash levels in an environment of relatively full valuations.



Cash and Cash Equivalents 18.95%
Listed Property 4.22%
New Zealand Equities 6.48%
Other* 0.14%
Australian Equities 70.21%

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)	21/11/2018
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 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 $
Trans-Tasman Bond Fund*^	0.82%	4.73%	4.47%	—	5.64%	1.1260	386.6 M
Global Bond Fund*^	0.54%	2.40%	—	—	4.57%	1.0274	330.3 M
Conservative Fund*	0.90%	6.09%	6.81%	—	6.81%	1.1237	197.3 M
Diversified Income Fund*	0.91%	7.82%	10.29%	11.18%	11.74%	1.6869	1899.8 M
Balanced Fund	1.37%	11.14%	9.70%	10.86%	10.40%	2.2227	596.1 M
Active Growth Fund#	1.70%	16.79%	12.63%	13.13%	13.22%	3.6381	1030.9 M
Australian Absolute Growth Fund	1.37%	—	—	—	—	1.0632	91.6 M
Global Equity Fund	1.95%	14.23%	7.09%	9.33%	9.05%	1.5837	465.9 M
Trans-Tasman Equity Fund*	2.99%	19.95%	17.08%	14.06%	11.73%	2.7996	402.6 M
Dynamic Fund	5.04%	28.21%	15.85%	—	15.06%	1.9755	256.7 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)	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

Milford Unit Trust PIE Funds Monthly Review as at 31 August 2018

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 4.12%	Microsoft 2.875% 2024 2.48%	NZLGFA 2.75% 2025 1.99%	Contact Energy 2.18%	iShares MSCI EAFE Index Fund 3.79%
Spark New Zealand 3.37% 2024 2.59%	BMO Float 2021 2.48%	QBE 6.75% 2044 1.61%	ASB Bank 5.25% 2026 2.07%	Vanguard Intl Select Excl Index Fund 1.90%
ING Float 2021 2.35%	Apple 3.7% 2022 2.26%	Investore Property 4.40% 2024 1.46%	Aventus Retail Property 1.95%	a2 Milk Company 1.51%
Auckland Council 3.17% 2023 2.12%	Intel 3.25% 2019 2.01%	ASB Bank 6.65% 2024 1.42%	Argosy Property 1.73%	Contact Energy 1.43%
Commonwealth Bank Float 2023 1.98%	Amazon 2.8% 2024 1.68%	BNZ 3.375% 2021 1.35%	Westpac 4.695% 2026 1.67%	Spark New Zealand 1.28%
ANZ 3.23% 2018 1.95%	Citigroup 5.95% 2049 1.68%	ING Float 2021 1.31%	Spark New Zealand 1.66%	Wellington Strategic Euro^ 0.95%
Vector 4.996% 2024 1.95%	Dell International LLC 1.59%	Spark New Zealand 3.37% 2024 1.25%	Kiwi Property Group 1.64%	Aventus Retail Property 0.85%
ASB Bank 6.65% 2024 1.94%	Goodman 1.375% 2025 1.57%	Suncorp Float 2028 1.21%	QBE 6.75% 2044 1.56%	Meridian Energy 0.85%
United Energy 3.85% 2024 1.91%	HSBC Float 2024 1.48%	Vector 4.996% 2024 1.11%	Meridian Energy 1.53%	ASB Bank 5.25% 2026 0.85%
BNZ 3.375% 2021 1.84%	QBE 6.75% 2044 1.46%	Barminco Finance 6.625% 2022 1.06%	Mirvac Group 1.47%	Antipodes Global Fund^ 0.80%

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 3.38%	ANZ 2.16% 2018 6.59%	Wellington Strategic Euro^ 5.02%	a2 Milk Company 6.76%	Corporate Travel Mgmt 4.28%
a2 Milk Company 3.00%	ANZ 2.14% 2018 4.40%	Antipodes Global Fund^ 4.24%	Fisher & Paykel Healthcare 4.13%	Credit Corp Group 3.60%
Contact Energy 2.36%	Orora 3.88%	Wellington Wolf Creek Shares^ 4.16%	BHP Billiton 3.91%	Collins Foods 3.21%
Spark New Zealand 2.04%	Credit Corp Group 3.33%	Hawkes Bay Investors^ 4.15%	Commonwealth Bank of Australia 3.80%	Seven Group Holdings 3.03%
Vanguard Intl Select Excl Index Fund 1.67%	Collins Foods 3.21%	Magellan Infrastructure^ 3.93%	National Australia Bank 3.13%	Bingo Industries 3.01%
CYBG 8% 2049 1.63%	Transurban Group 2.82%	Vontobel Sust. EM Leaders^ 3.75%	Spark New Zealand 3.00%	Pinnacle Investment Mgmt 2.77%
Delegat Group 1.61%	Boral 2.74%	Energy Select SPDR 3.75%	Aristocrat Leisure 2.65%	Smartgroup Corp 2.63%
Z Energy 1.43%	Mirvac Group 2.59%	GMO Systematic Global Macro^ 3.62%	Westpac Banking Corp 2.58%	HUB24 2.34%
Westpac 5% 2027 1.28%	Bingo Industries 2.44%	iShares Russell 2000 2.91%	Contact Energy 2.54%	Australian Finance Group 2.30%
Boral 1.26%	a2 Milk Company 2.24%	Health Care Select SPDR 2.69%	Ryman Healthcare 2.52%	AUB Group 2.24%

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 and Milford staff have approximately $32.7 million invested across our Unit Trust PIE Funds as at the end of August 2018.

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