Milford KiwiSaver Plan Monthly Review
October 2018

Market and Economic Review

Global markets delivered a mixed performance in September as they digested the impact of US tariffs levied on a further $200bn of Chinese goods. Investor concerns over rising trade tensions were offset by continued strong economic data, particularly from the US, and the MSCI World Index finished the month up 0.7% (in local currency).

Local markets were also more mixed this month with the New Zealand index up 0.4% and the Australian index down 1.3%. In New Zealand, passive funds and offshore investors helped the market recover from a weak start. A number of our companies were included in the FTSE Global Index, effective 21st September, and this was a driver of market activity.

Last week the Investment Team held our Quarterly Strategy meeting, at which we have an in-depth discussion about the future direction of the major economies and markets across our investment horizon. Our conclusions somewhat mirror the performance of markets this month. We see risks, and the likelihood of volatility in markets. But for now, economic growth remains healthy and this is underpinning company performance. Offsetting this, the valuations of some companies are relatively high.

On balance, we believe markets will continue to be supported. We are acutely aware of economic and political risks however, which are reflected in the performance of the markets and your Funds this month. For example, our Active Growth Fund delivered 0.3% and our Conservative Fund delivered 0.2%.

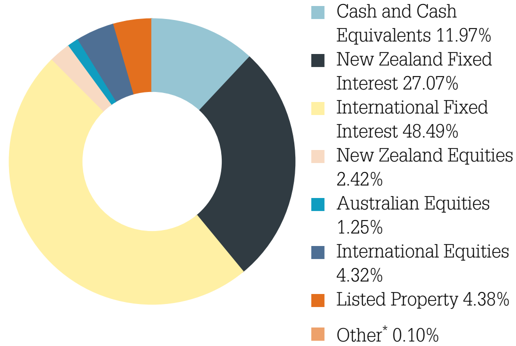
The key risk, in our view, is the economic cycle maturing. Particularly in New Zealand, where valuations are particularly high and the risk/reward is less favourable than it has been over the past few years. We remain focussed on stock selection, and believe active management remains a strong strategy at the late stage of the economic cycle.

Milford KiwiSaver Plan Monthly Review as at 30 September 2018

Conservative Fund

Portfolio Manager: Paul Morris

Actual investment mix[1]



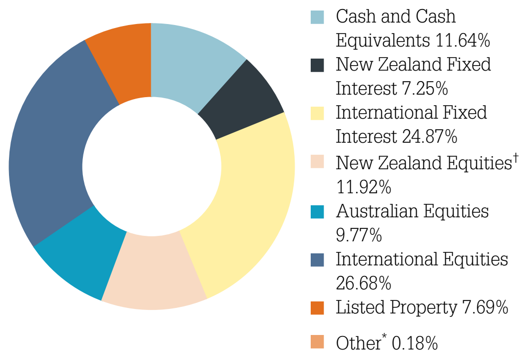
The Fund returned 0.2% in September and 5.8% over the past 12 months. Returns across the asset classes into which the Fund is invested were muted. Its fixed interest exposure, essentially Australasian and global corporate bonds, was close to flat in the month as prices fell. The global share allocation posted a small negative, albeit it has performed well during the year. Australasian shares were mixed but did include strong gains from NZ income shares, notably Spark (+5.6%), Meridian Energy (+5.9%) and Contact Energy (+5.1%). The Fund remains actively managed and participated in several new corporate bond issues, including from Rabobank (a well-capitalised Dutch bank).

Global growth remains above trend, but risks are increasing (tariff wars, Emerging Market stress, Brexit, Italian politics). With valuations in many asset classes elevated, and in the context of the Fund's risk profile, it is prudent not to chase returns. Recent years have seen extraordinary central bank monetary policy cushion markets from myriad risks, supporting both bonds and shares.

Looking forward, this support is diminishing as policy normalises. We have therefore retained cautious positioning; overweight cash and fixed interest versus underweight shares. Within fixed interest we have been improving the credit quality of the corporate bond holdings and have limited Fund interest rate exposure, given the risk of higher yields.

Balanced Fund

Portfolio Manager: Mark Riggall

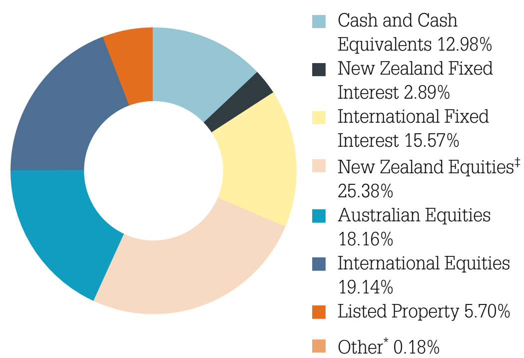


The Fund returned 0.1% in September, bringing the 1-year return to 10.8%. Global share markets managed to draw out further gains in the face of an escalating US-China trade war. In September, these gains were driven by a catch up in performance from Japan and Europe, with the US market only slightly higher on the month.

The Australian share market was down 1.3% as the Royal Commission weighed on the banks, in addition to investors taking money out of Australia and back into Emerging Markets. NZ economic data was better than expected in September and NZ shares were up slightly, despite a2 Milk falling over 10% as the new CEO sold stock. Global government bond markets fell. Inflation data has been picking up, notably wage growth in many global regions, in addition to oil prices moving higher. This is pushing up bond yields (bond prices fall when yields rise). Milford's bond funds mitigated these losses through positioning and exposure to company bonds which performed better. Going forward we remain concerned about rising interest rates and the trade situation. Global economic growth has stabilised above post-GFC averages, but moderately elevated valuations temper our enthusiasm for growth assets. Global shares represent the best growth opportunity, but broadly speaking, the Fund will continue to invest cautiously and maintains a lower exposure to growth assets.

Active Growth Fund

Portfolio Manager: Jonathan Windust



The Fund rose 0.3% during the month reflecting relatively subdued returns from share markets after several strong months. Key NZ company performers during the month were Ebos (+8.1%) and Mainfreight (+7.1%) which had no news but benefited from strong investor demand. Key Australian companies were oil and gas company Sundance Energy (+15.7%) and mining company Rio Tinto (+8.3%) which benefited from rising commodity prices.

We added to our holding in Rio Tinto during the month which we believe is attractively valued and had been oversold due to concerns over China. In September, the Chinese government provided measures to stimulate growth to offset any negative impact from increased tariffs. During the month, we reduced our holding in a2 Milk following increased regulatory uncertainty and the sale of shares by the company's new CEO. The outlook for shares is supported by good economic conditions, company earnings and positive investor sentiment with the key headwind being concerns of a peak in growth and relatively full company valuations. The high level of valuations means future returns are likely to be lower and have increased risks if growth or earnings disappoint. Given this backdrop, the Fund has a lower than average weight in shares and remains active in selecting companies which have attractive risk and return prospects.

†Includes unlisted equity holdings of 0.24% ‡Includes unlisted equity holdings of 2.18% *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	0.17%	5.82%	6.66%	8.62%	9.58%	1.7063	60.0 M
Balanced Fund	0.14%	10.81%	10.24%	10.92%	10.56%	2.2672	241.8 M
Active Growth Fund	0.26%	15.72%	12.98%	12.67%	13.23%	3.6779	1,099.6 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)	0.67%	19.15%	20.06%	15.99%	17.29%
S&P/ASX 200 Accumulation Index (AUD)	-1.26%	13.97%	12.11%	8.19%	11.30%
S&P/ASX 200 Accumulation Index (NZD)	-1.13%	14.69%	11.89%	7.58%	8.90%
MSCI World Index (local currency)*	0.73%	12.30%	13.52%	10.85%	13.86%
MSCI World Index (NZD)*	0.64%	21.30%	12.20%	14.39%	14.79%
S&P/NZX 90-Day Bank Bill Rate	0.15%	1.95%	2.24%	2.68%	2.69%

*With net dividends reinvested

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

Conservative Fund	Balanced Fund	Active Growth Fund
Summerset 4.2% 2025 2.54%	iShares MSCI EAFE Index Fund 4.07%	iShares MSCI EAFE Min Vol ETF 3.36%
NZLGFA 2.75% 2025 2.04%	Vanguard Intl Select Excl Index Fund 1.87%	Contact Energy 2.47%
Rabobank 4.625% 2025 1.66%	Contact Energy 1.65%	Spark New Zealand 1.89%
QBE 6.75% 2044 1.56%	Spark New Zealand 1.22%	a2 Milk Company 1.79%
Investore Property 4.40% 2024 1.40%	a2 Milk Company 0.99%	Vanguard Intl Select Excl Index Fund 1.66%
ASB Bank 6.65% 2024 1.35%	Meridian Energy 0.96%	CYBG 8% 2049 1.64%
Vodafone Group 3.1% 2079 1.34%	Wellington Strategic Euro^ 0.90%	Delegat Group 1.47%
BNZ 3.375% 2021 1.28%	ASB Bank 5.25% 2026 0.83%	Z Energy 1.34%
ING Float 2021 1.26%	Aventus Retail Property 0.83%	Unibail-Rodamco-Westfield 1.28%
Spark New Zealand 3.37% 2024 1.21%	Energy Select SPDR 0.81%	Westpac 5% 2027 1.23%

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 $9.8 million invested in the Milford KiwiSaver Plan as at the end of September 2018.

Risk & Volatility Disclosures

The disclosure of risk and volatility of KiwiSaver funds is an important aspect of the Financial Markets Conduct Act 2013. Fund managers are expected to provide this information in several areas including; Product Disclosure Statements, Quarterly Fund Updates and in corresponding disclose register updates.

The following table shows the seven risk categories determined by the Financial Markets Authority (FMA) and the current risk categories of the three Milford KiwiSaver funds.

Milford KiwiSaver risk profiles

Risk category	Description of volatility	Milford fund
1	Very low	-
2	Low	Conservative Fund
3	Low to medium	Balanced Fund
4	Medium to high	Active Growth Fund
5	High	-
6	Very high	-
7	Extremely high	-

Risk categories are determined by volatility, which is the weekly movement in returns. The more returns fluctuate, the greater the volatility and the higher the risk category.

When the KiwiSaver Scheme started in 2007, a large proportion of new money went into default funds, which are mainly lower risk category 2 and 3 funds. But as KiwiSaver members have become more comfortable with the risk and return characteristics, they have moved up the risk profile.

However, there are still relatively high levels of members' money in lower risk category 1 and 2 funds. Risk category 1 funds are mainly cash funds. By their nature these deliver below the average investment return of other more diversified funds over the long-term.

The FMA believes that fund names are also an important indicator of risk. These are the risk profiles of common fund names:

- Defensive – generally no more than 10% invested in growth assets
- Conservative – generally between 10% and 35% in growth assets
- Balanced – generally between 35% to 63% in growth assets
- Growth – generally between 63% and 90% in growth assets
- Aggressive or High Growth – generally more than 90% invested in growth assets.

It is important that KiwiSaver members are invested in the right funds or combination of funds. Risk categories and fund names are useful tools as far as this process is concerned. We also have a useful risk profile tool on our website that can help you understand your risk appetite.

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

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