Milford Unit Trust PIE Funds 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 share price 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 higher risk equities Funds delivered between -0.9% and 0.3%, while our four lower risk bond focussed Funds delivered between -0.1% and 0.5%.

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.

Trans-Tasman Bond Fund

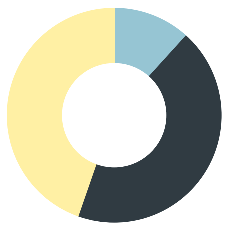
Portfolio Manager: Paul Morris

Australasian bond markets continue to outperform offshore. Nevertheless, in September reasonable local economic data, coupled with offshore bond market weakness saw Australasian bond yields rise. That pushed prices lower, limiting Fund return to just 0.1% in the month. This was still 0.1% better than the benchmark due to the Fund's higher yield and its lower interest rate exposure (which offered some protection from the rise in yields).

The Fund remains active and participated in a recent increase in supply of new bond issues, including bonds from Suncorp (Australian bank), AT&T (US telecom) and Summerset (the retirement village operator). That said, we remain cautious. Many Australasian corporate bonds look expensive versus both offshore peers and historic valuations. We will continue a strategy of reducing Fund exposure to more expensive holdings, while also reducing credit risk.

Looking forward, ongoing commentary from the two Australasian central banks pointing to unchanged monetary policy should anchor shorter dated yields. This supports an Australasian interest rate exposure close to the benchmark, but we remain wary of higher offshore yields as global monetary policy normalises. That could weigh on longer dated Australasian bonds and we have retained a small negative exposure to US dollar interest rates to benefit if US interest rates continue to rise.

Actual investment mix[1]



Cash and Cash Equivalents 11.73%
New Zealand Fixed Interest 43.59%
International Fixed Interest 44.68%
Other* 0%

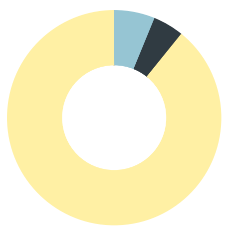
Global Bond Fund

Portfolio Manager: Paul Morris

Global government bonds were weaker in September, handing back recent gains, limiting the Fund return in the month to -0.1%. Relative to the benchmark, the Fund retains lower interest rate exposure and so was less impacted. It holds a larger exposure to corporate bonds which generally outperformed government bonds. This underpinned 0.1% of outperformance over the benchmark. Corporate bonds proved resilient to September's seasonal increase in issuance.

The Fund participated in several new issues, including an attractively priced subordinated bond from Rabobank (a well-capitalised Dutch bank). That said, we remain cautious given an historically tight yield differential between corporate and government bonds plus increasing risks; tariff wars, slowing global growth, Brexit, Emerging Markets stress and the threat to Eurozone stability from populist Italian policies. In recent years extraordinary central bank monetary policy cushioned markets from myriad risks, helping government and corporate bonds.

Looking forward, as inflation recovers, that central bank support is diminishing as policy normalises. The US is already well into this process and Europe has signalled it will commence next year. Therefore, we will continue to improve the credit quality of corporate bond holdings and limit Fund interest rate exposure, given the risk of higher yields.



Cash and Cash Equivalents 6.23%
New Zealand Fixed Interest 4.62%
International Fixed Interest 89.01%
Other* 0.14%

*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

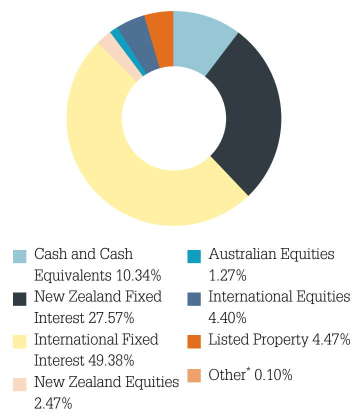
Portfolio Manager: Paul Morris

The Fund returned 0.2% in September and 6.0% 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.

Actual investment mix[1]



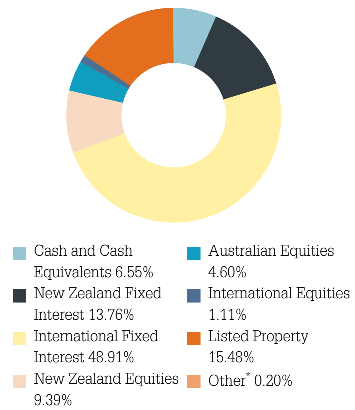
Diversified Income Fund

Portfolio Manager: David Lewis

The Fund rose 0.5% in September and has returned 8.2% in the past year. Market returns for September were generally low (NZ shares +0.4%) to negative (global bonds -0.4% and Australian shares -1.3%).

A solid performance from several high-dividend paying NZ stocks was the key boost to the Fund's return this month. These included Spark (+5.6%), Meridian Energy (+5.9%) and the Contact Energy (+5.1%). The latter two benefited from a market-friendly initial report from the NZ government relating to prices charged in the electricity sector. We think valuations for these two companies continue to look attractive relative to the risk, and the Fund added to its position in each over the month. On the bond side, the Fund was active this month, selling holdings in Precinct Properties and Bank of Queensland and adding to offshore holdings in French banks.

Looking ahead, as has now been the case for several months, the Fund retains a modestly cautious strategy as the combination of higher market valuations and a reduction in global monetary policy support weigh against strong economic growth and low interest rates. This means we are treading somewhat carefully in our investment decisions and positioning. However, we are not in full risk reduction mode whereby the Fund's holdings of shares (currently 31%) would likely be much lower, and our cash holdings (7%) much higher.



*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.

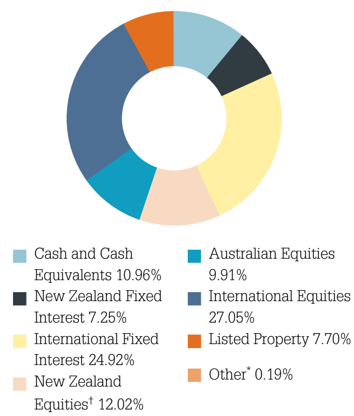
Balanced Fund
Portfolio Manager: Mark Riggall

The Fund returned 0.1% in September, bringing the 1-year return to 10.7%. 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 maintain a lower exposure to growth assets.

Actual investment mix[1]



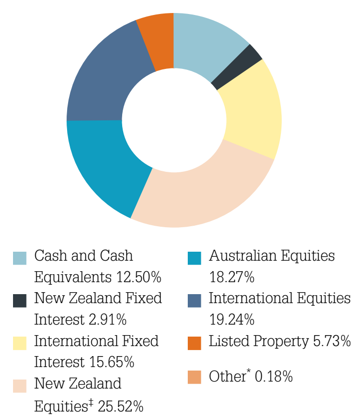
Active Growth Fund
Portfolio Manager: Jonathan Windust

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.

Please note this Fund is closed to new investors.



†Includes unlisted equity holdings of 0.25% ‡Includes unlisted equity holdings of 2.19% *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

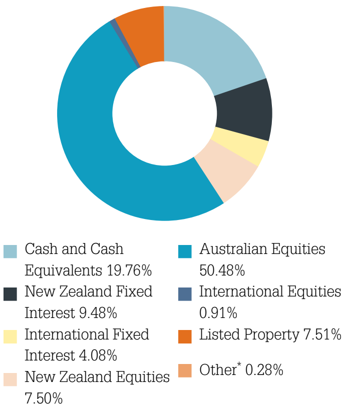
Portfolio Manager: William Curtayne

The Fund was relatively flat in September, returning -0.3%. The Australian share market was weak early in the month on the back of global trade war headlines but recovered as the month progressed.

Collins Foods was our top contributor in September. Collins Foods' main assets are KFC franchises in Australia, Germany and the Netherlands. It is not a high growth business, but it does achieve some growth each year by opening and acquiring new stores. Combined with consistent earnings and a reasonable dividend, this moderate growth makes for an attractive investment. The shares rallied in September as investors purchased them ahead of the upcoming investor day in October.

Other strong performers for the month were Sundance Energy and Rio Tinto which rallied with commodity prices. Our worst contributor was toll road operator Transurban which fell 5.5% following a large capital raising to fund the purchase of a new motorway network in Sydney. The increase in US bond rates also caused some selling of high dividend yield companies like Transurban. We maintain a positive outlook on Transurban as we believe that demand for well-located toll roads will continue to grow very strongly over the next decade as traffic congestion increases in major cities like Sydney and Melbourne.

Actual investment mix[1]



Global Equity Fund

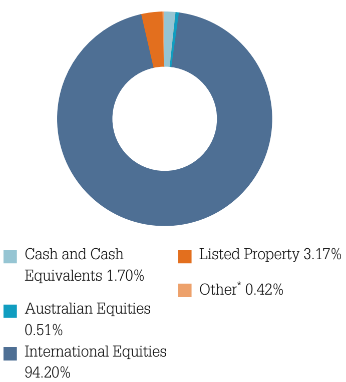
Portfolio Manager: Felix Fok

The Fund fell 0.4% in September, bringing the 1-year return to 12.7%.

The biggest positive contributor was video game publisher Activision Blizzard (+15.4%). The company owns some of the most popular franchises such as Call of Duty and World of Warcraft. It is also well positioned in eSports, where professional gaming teams compete in front of audiences. On a recent US trip, we attended the Overwatch World Cup to better understand Activision's eSports opportunity. Oil producer EOG (+7.9%) rebounded as the oil price touched new highs for the year. Our recent meeting with EOG confirmed their discipline and technology leadership as well as their unique culture. The biggest detractor was animal pharmaceutical company Dechra (-30.2%). In their recent earnings announcement, the CEO offered a cautious tone given Brexit risks and customer consolidation. We believe our long-term thesis is intact, as the company benefits from the trend in increased pet spending globally and faster adoption of protein heavy diets.

September was a challenging month for our external managers. To simplify the Fund structure and lower the ongoing fees, we recently redeemed from Magellan Infrastructure, Antipodes Global Fund as well as hedge funds Hawkes Bay and Wolf Creek.

Overall, economic growth has moderated from a high level but remains healthy, particularly in the US. Concerns over inflation and protectionism are likely to lead to a bumpier road ahead. Our portfolio positioning remains focused on our key investment themes and world class dominant companies.



*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.

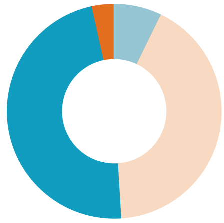
Trans-Tasman Equity Fund
Portfolio Manager: Sam Trethewey & Wayne Gentle

The Fund fell 0.9% in September after a very strong performance in August. The Fund benefited from strength in the New Zealand equity market (+0.4%) but this was offset by weakness in Australia (-1.3% in local currency). The Fund has returned 18.6% over the past 12 months.

Highlights for the Fund included Serko (+15.3%) and Sundance Energy (+15.7%). Serko, a corporate travel software provider, rallied strongly after a positive broker initiation. Sundance, a rapidly growing US oil producer with an extensive drilling programme underway, benefited from oil price strength. Detractors included Aristocrat Leisure (-10.0%) and a2 Milk (-10.8%). Aristocrat was impacted by negative revisions to analysts' expectations for its digital business. In a2 Milk, the newly appointed CEO disappointingly sold all the shares she received as part of her sign-on package. Fortunately, we had already reduced our holding prior to this due to increased uncertainty around Chinese eCommerce regulation. During the month, the Fund also participated in the equity raising in Transurban and increased our holding in Rio Tinto as China worries abated.

Looking ahead, we believe conditions remain favourable for the local equity markets. We will continue to focus on stock selection, positioning the Fund away from stocks where we see downside risk to earnings or stretched valuations.

Actual investment mix[1]



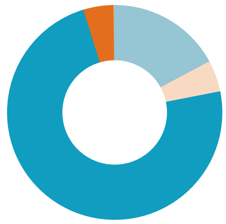
Dynamic Fund
Portfolio Manager: William Curtayne & Michael Higgins

The Fund declined 0.6% in September, broadly in line with the Small Cap Industrial benchmark which fell 0.4%. The Australian share market was weak early in the month on the back of global trade war headlines but recovered as the month progressed.

Winners for the month included: Seven Group (+10.1%), Sundance Energy (+15.7%) and Collins Foods (+9.4%). Collins Foods' main assets are KFC franchises in Australia, Germany and the Netherlands. It is not a high growth business, but it does achieve some growth each year by opening and acquiring new stores. Combined with consistent earnings and a reasonable dividend, this moderate growth makes for an attractive investment. The shares rallied in September as investors anticipated a positive reaction to an October investor day.

Underperformers were Corporate Travel Management and Blackmores, down 5.8% and 18.1% respectively. Corporate Travel Management has been a strong contributor for the Fund but suffered a lack of new news over September. Blackmores was caught in the cross fire from China exposed stock weakness. This was exacerbated by proposed regulation changes for unregulated brands imported into China.

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.



Upcoming Distributions	Target	Payment Date
Trans-Tasman Bond Fund	0.75 cents (Quarterly)	19/12/2018
Global Bond Fund	0.75 cents (Quarterly)	19/12/2018
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)	20/03/2019

*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 30 September 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*^	0.06%	4.53%	4.49%	—	5.55%	1.1192	387.8 M
Global Bond Fund*^	-0.07%	1.99%	—	—	4.30%	1.0192	330.7 M
Conservative Fund*	0.17%	5.99%	6.80%	—	6.68%	1.1255	200.8 M
Diversified Income Fund*	0.46%	8.24%	10.36%	10.92%	11.68%	1.6938	1920.1 M
Balanced Fund	0.14%	10.70%	9.99%	10.55%	10.32%	2.2249	607.2 M
Active Growth Fund#	0.27%	15.72%	12.75%	12.51%	13.14%	3.6456	1036.7 M
Australian Absolute Growth Fund	-0.28%	—	—	—	—	1.0600	97.1 M
Global Equity Fund	-0.38%	12.65%	7.65%	9.07%	8.83%	1.5774	474.9 M
Trans-Tasman Equity Fund*	-0.86%	18.63%	17.40%	13.17%	11.55%	2.7583	404.2 M
Dynamic Fund	-0.62%	23.38%	15.60%	14.65%	14.65%	1.9629	262.4 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.
#Not available to new investors. The Manager may consider a new direct wholesale investor at its discretion from time to time.

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)

Trans-Tasman Bond Fund	Global Bond Fund	Conservative Fund	Diversified Income Fund	Balanced Fund
NZLGFA 2.75% 2025 4.10%	BMO Float 2021 2.48%	Summerset 4.2% 2025 2.59%	Contact Energy 2.64%	iShares MSCI EAFE Index Fund 4.10%
Spark New Zealand 3.37% 2024 2.59%	Microsoft 2.875% 2024 2.46%	NZLGFA 2.75% 2025 2.08%	ASB Bank 5.25% 2026 2.01%	Vanguard Intl Select Excl Index Fund 1.89%
Summerset 4.2% 2025 2.52%	Apple 3.7% 2022 2.26%	Rabobank 4.625% 2025 1.69%	Aventus Retail Property 1.88%	Contact Energy 1.66%
ING Float 2021 2.35%	Intel 3.25% 2019 2.02%	QBE 6.75% 2044 1.59%	Meridian Energy 1.77%	Spark New Zealand 1.23%
Suncorp-Metway 3% 2023 2.24%	AT&T 3.45% 2023 1.74%	Investore Property 4.40% 2024 1.43%	Westpac 4.695% 2026 1.65%	a2 Milk Company 1.00%
Auckland Council 3.17% 2023 2.11%	Amazon 2.8% 2024 1.67%	ASB Bank 6.65% 2024 1.37%	Kiwi Property Group 1.64%	Meridian Energy 0.96%
Commonwealth Bank Float 2023 1.98%	Citigroup 5.95% 2049 1.67%	Vodafone Group 3.1% 2079 1.37%	Argosy Property 1.61%	Wellington Strategic Euro^ 0.91%
ANZ 3.23% 2018 1.95%	Vodafone Group 3.1% 2079 1.66%	BNZ 3.375% 2021 1.30%	QBE 6.75% 2044 1.55%	ASB Bank 5.25% 2026 0.83%
ASB Bank 6.65% 2024 1.91%	Dell Float 2023 1.59%	ING Float 2021 1.28%	Spark New Zealand 1.53%	Aventus Retail Property 0.83%
Vector 4.996% 2024 1.89%	Goodman 1.375% 2025 1.54%	Spark New Zealand 3.37% 2024 1.23%	Aventus Capital Float 2025 1.33%	Energy Select SPDR 0.82%

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 5.54%	Wellington Strategic Euro^ 4.91%	a2 Milk Company 5.37%	Corporate Travel Mgmt 4.22%
Contact Energy 2.49%	Commonwealth Bank 3.50%	Antipodes Global Fund^ 4.24%	Commonwealth Bank 4.21%	Collins Foods 3.47%
Spark New Zealand 1.90%	Collins Foods 3.50%	Wellington Wolf Creek Shares^ 4.10%	Fisher & Paykel Healthcare 4.12%	Credit Corp Group 3.43%
a2 Milk Company 1.80%	Credit Corp Group 3.31%	Hawkes Bay Investors^ 4.00%	BHP Billiton 4.07%	Seven Group Holdings 3.25%
Vanguard Intl Select Excl Index Fund 1.67%	Orora 2.94%	Energy Select SPDR 3.99%	Ryman Healthcare 3.13%	Bingo Industries 3.00%
CYBG 8% 2049 1.64%	Transurban Group 2.84%	Vontobel Sust. EM Leaders^ 3.65%	National Australia Bank 3.06%	Pinnacle Investment Mgmt 2.84%
Delegat Group 1.48%	Boral 2.75%	Health Care Select SPDR 2.82%	Spark New Zealand 2.93%	Smartgroup Corp 2.42%
Z Energy 1.35%	Mirvac Group 2.40%	iShares Russell 2000 2.78%	Fletcher Building 2.72%	Boral 2.33%
Unibail-Rodamco-Westfield 1.28%	Contact Energy 2.35%	Euro Stoxx 50 ETF SPDR 2.61%	Contact Energy 2.64%	Orora 2.23%
Westpac 5% 2027 1.23%	Unibail-Rodamco-Westfield 2.30%	Vanguard Info Tech ETF 2.12%	Aristocrat Leisure 2.64%	Australian Finance Group 2.16%

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 $31.9 million invested across our Unit Trust PIE Funds as at the end of September 2018.

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

MILFORD