Milford KiwiSaver Plan Monthly Review
November 2018

Market and Economic Review

October was a difficult month for all markets with the NZX 50 Gross Index down 6.4%, ASX 200 Accumulation Index -6.1%, Tokyo -9.4%, Shanghai -7.7%, Hong Kong -10.0%, London -4.9%, the technology heavy Nasdaq -9.2% and the Dow Jones Industrial Average -5.0%.

There were several reasons for the down markets including;

- The ten-year bull market has been supported by low interest rates and liquidity increases through central bank money printing
- Interest rates have risen in recent months and central banks, particularly the United States Federal Reserve Board, have reduced liquidity
- This means that the backdrop to US financial markets has changed with the world's largest economy moving from a positive low interest rate environment to a rising interest rate scenario
- In addition, President Trump's pro-tariff and anti-immigration policies are creating geopolitical tensions and reversing the open economic policies of the past three decades.

Milford's funds have been anticipating this change and we have dialled down risk in several ways. We have increased the level of cash, particularly in the Active Growth, Balanced and Diversified Income funds. We have also reduced our growth stock holdings and increased our exposure to defensive companies. In addition, we have used derivatives to protect portfolios from the worst of the market declines.

This approach has been reasonably successful with the Conservative Fund down only 0.6%, the Balanced Fund down 3.6% while the Active Growth Fund declined 4.1%.

You may recall, October 2017 was a very strong month for returns. As this October was particularly difficult, our funds' one year returns have been impacted.

We are taking a more cautious approach towards the months ahead, mainly because of the potential impact of Trump's tariff and immigration policies. Trump's tariffs will raise import prices in the US and his immigration strategies are leading to labour shortages, particularly as far as lower paid workers are concerned. These two factors, tariffs and anti-immigration policies, will put pressure on US inflation and interest rates.

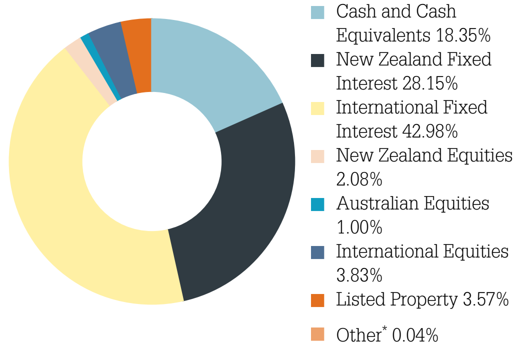
We believe that share markets will remain volatile, with more downside than upside potential in the short-term. However, we are not expecting a major downturn and remind clients that our funds have three years plus investment horizons. Milford's funds have performed extremely well to date and we are determined to continue to do so in the future. Weak months, as we had in October, are an unfortunate feature of long-term share market investing.

Milford KiwiSaver Plan Monthly Review as at 31 October 2018

Conservative Fund

Portfolio Manager: Paul Morris

Actual investment mix[1]

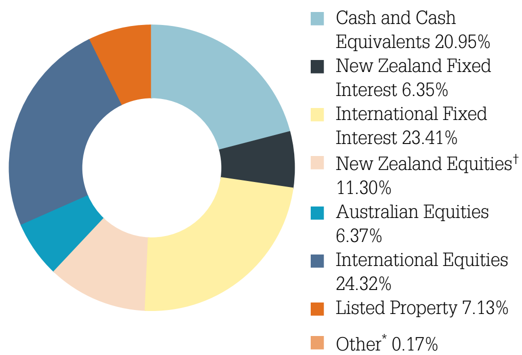


October was a challenging month. Global and Australasian shares were materially weaker. Bond performance was mixed with Australasian bonds posting a moderate return to offset weakness in global bonds. The result was a 0.6% loss for the Fund in the month. The Fund has returned 3.6% over the past year. While frustrating, the loss was limited by our cautious positioning. Cognisant of elevated valuations and growing risks we had already significantly reduced share exposure below the long-run neutral and increased the allocation to cash and bonds. This defensive positioning progressed further in October as cash continued to increase, primarily by selling more expensive bonds.

Looking forward, we remain cautiously optimistic for economic growth, albeit signs are it may be slowing. We also note valuations across many bond and share markets are now less stretched. Nevertheless, diminished global monetary policy support means medium-term returns are likely to be more moderate than in recent years, and accompanied with higher volatility. Considering the Fund's risk profile, we will therefore retain cautious positioning but look to selectively deploy some cash into bonds and shares that offer suitable risk adjusted returns. We will also continue to limit the Fund's interest rate exposure. Australasian bonds may be supported by on hold central bank policy but the risk for higher offshore interest rates remains.

Balanced Fund

Portfolio Manager: Mark Riggall



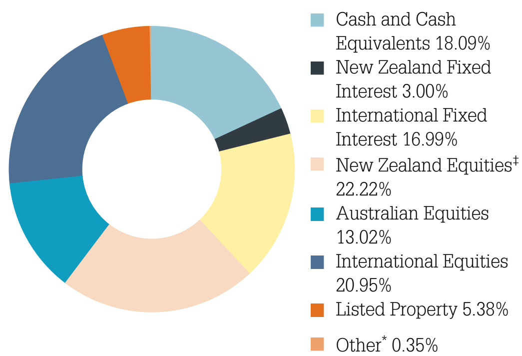
The Fund lost 3.6% in October, with a 1-year return of 3.9%. Volatility returned to share markets in a dramatic way in October with US, Australian and NZ share markets all down close to 10% during the month, although recovering to finish down 6-7% at month end. With a significant exposure to shares, the Fund's performance reflected these moves.

We have been expecting higher volatility and the Fund was positioned in a moderately cautious way ahead of this volatility. This was expressed via a reduced exposure to shares, higher levels of cash, elevated exposure to foreign currencies and derivative positions to protect against market falls in the US and Australia. As a result, the Fund did mitigate some of the volatility. The Fund's investments in bonds delivered a flat performance for the month, as much of the recent market turmoil has been driven by rising interest rates (bond prices fall when interest rates rise).

The market moves this month have confirmed our view of a changing investment landscape. Whilst we don't foresee an imminent economic downturn, higher inflation and interest rates are going to continue to cause market volatility. Our active approach will allow us to take advantage of these opportunities, but the outlook warrants a more conservative investment position going forward, with a lower allocation to growth assets (shares) and higher cash holdings.

Active Growth Fund

Portfolio Manager: Jonathan Windust



The Fund fell 4.1% during the month and is up 7.6% over the last year. The Fund was negatively impacted by sharp falls in share markets with the NZ, Australian and global share markets falling 6.4%, 6.1% and 6.8% respectively. Share markets fell in response to concerns over slowing economic growth and relatively high company valuations. The Fund was able to reduce some of the market falls through a lower weight to shares and some positive company performances.

Key positives were Straker Translations (+8.6%), Steel and Tube (+37.8%), MYOB (+13.7%) and Restaurant Brands (+9.7%). All four were subject to takeover offers during the month. Whilst the takeover offer for Steel and Tube was not supported by the company we were able sell our shares to Australian company Blue Scope Steel for $1.75 per share.

Looking forward shares are supported by reasonable economic growth and company earnings with key headwinds being concerns of a peak in economic growth and in some cases high company valuations. Whilst we expect growth will slow, we do not expect a recession. However, with increased economic and market uncertainty we believe markets may remain volatile. Given this backdrop the Fund has a lower than average weight in shares and remains active to take advantage of market volatility to purchase those companies which we believe are attractively valued.

†Includes unlisted equity holdings of 0.25% ‡Includes unlisted equity holdings of 2.12% *Other includes currency derivatives used to manage foreign exchange risk.
[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	-0.60%	3.58%	6.07%	8.06%	9.33%	1.6960	67.9 M
Balanced Fund	-3.55%	3.93%	7.82%	9.52%	9.99%	2.1864	239.4 M
Active Growth Fund^	-4.11%	7.62%	10.07%	11.07%	12.70%	3.5261	1,070.8 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.
^This is based on the performance of the AonSaver AMT Milford Aggressive Fund until 31 March 2010 and the Milford KiwiSaver Active Growth Fund from 1 April 2010.

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)	-6.35%	8.58%	14.83%	13.65%	16.24%
S&P/ASX 200 Accumulation Index (AUD)	-6.05%	2.94%	8.25%	6.02%	9.21%
S&P/ASX 200 Accumulation Index (NZD)	-6.56%	-0.12%	9.30%	4.91%	6.36%
MSCI World Index (local currency)*	-6.80%	2.06%	8.12%	8.46%	11.41%
MSCI World Index (NZD)*	-5.93%	6.12%	9.20%	11.99%	13.18%
S&P/NZX 90-Day Bank Bill Rate	0.16%	1.96%	2.22%	2.67%	2.68%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	-0.20%	0.20%	2.18%	2.91%	3.10%
S&P/NZX NZ Government Bond Index	0.43%	4.79%	4.00%	5.14%	4.58%

*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 2.29%	iShares MSCI EAFE Index Fund 3.79%	iShares MSCI EAFE Min Vol ETF 3.32%
Kiwibank 3.1% 2019 2.02%	Contact Energy 1.66%	Contact Energy 2.54%
NZLGFA 2.75% 2025 1.82%	Vanguard Intl Select Excl Index Fund 1.60%	Spark New Zealand 1.78%
ANZ 2.91% 2019 1.58%	Spark New Zealand 1.13%	CYBG 8% 2049 1.67%
QBE 6.75% 2044 1.43%	Meridian Energy 1.07%	Vanguard Intl Select Excl Index Fund 1.60%
NZLGFA 6% 2021 1.34%	a2 Milk Company 0.96%	a2 Milk Company 1.43%
Investore Property 4.40% 2024 1.28%	ASB Bank 5.25% 2026 0.85%	Delegat Group 1.41%
ASB Bank 6.65% 2024 1.23%	Wellington Strategic Euro 0.85%	Unibail-Rodamco-Westfield 1.34%
Vodafone Group 3.1% 2079 1.21%	Wellington Global Health Care 0.83%	Alphabet 1.28%
ING Float 2021 1.13%	iShares MSCI EAFE Min Vol ETF 0.80%	Westpac 5% 2027 1.28%

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).

Milford staff have approximately $9.4 million invested in the Milford KiwiSaver Plan as at the end of October 2018.

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KiwiSaver fund performances

The Morningstar KiwiSaver Survey for the September quarter shows that Milford continues to be a top performing KiwiSaver provider. The following table illustrates this.

Milford KiwiSaver Funds – Performance figures to 30 September 2018

	Ranking			
Milford KiwiSaver funds	1-Year	3-Year p.a.	5-Year p.a.	10-Year p.a.
Conservative				
Milford performance	5.8%	6.7%	8.6%	-
Sector average	4.5%	5.0%	6.1%	-
Milford rank	1st/21	1st/18	1st/13	-
Balanced				
Milford performance	10.8%	10.2%	10.9%	-
Sector average	8.3%	8.6%	8.6%	-
Milford rank	2nd/25	1st/19	1st/18	-
Growth				
Milford performance	15.7%	13.0%	12.7%	13.8%
Sector average	11.3%	10.8%	10.5%	9.1%
Milford rank	1st/26	1st/22	1st/21	1st/17

To see the full Morningstar KiwiSaver Survey September 2018 Quarter, click here.

The Morningstar Survey noted; *"It is most appropriate to evaluate performance of a KiwiSaver scheme by studying its long-term returns. Milford KiwiSaver Active Growth Fund tops the performance across all Multisector categories over 10 years. This approach started off with a much greater bias to Australasian equities, but has become more diversified as it has grown. Performance has stacked up favourably against peers, the strong return has come from a bias to growth assets and exposure to Australasian credit."*

Milford's competitive KiwiSaver performance has continued in October, as demonstrated by the following figures:

Milford Conservative	October return: -0.6% versus sector average of -1.2%
Milford Balanced	October return: -3.6% versus sector average of -3.5%
Milford Active Growth	October return: -4.1% versus sector average of -4.9%

Based on data available on Morningstar Direct as at 6 November 2018. Please note, not all competitors' October returns were available at time of publishing.

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