MILFORD

Milford KiwiSaver Plan Monthly Review
December 2018

Market and Economic Review

November was a challenging month for several reasons including the sharp appreciation in the New Zealand dollar, market volatility and negative earnings revisions.

The ASX 200 Accumulation Index was down 4.2% in New Zealand dollar terms - compared with a negative 2.2% in Australian dollars - because of the Kiwi's strong performance.

The US S&P500 Index fell 3.2% in NZ dollars compared with a positive 2.0% return in US dollars and the STOXX Europe 600 Index, which comprises companies from 17 European countries, declined by 1.0% in Euro terms but was down 6.0% in NZ dollars.

Most Milford funds have currency hedging strategies, which partially protects them against the impact of a strong NZ dollar, but they are not fully hedged. Consequently, our KiwiSaver funds had negative returns for the month with the Active Growth Fund down 1.3%, Balanced 0.5% and Conservative 0.3%.

Financial markets are being driven by three major factors at present; President Trump's tariff policies, interest rates and company earnings.

Trump's tariff policies are a major concern although the outcome of the G20 summit meeting in Buenos Aires was encouraging. However, it is difficult to determine which way Trump will go next and financial markets will continue to react to his policies in this area. The best outcome would be for the US President to moderate his harsh stance on tariffs, particularly as the country's mid-term elections have been completed.

The outlook for interest rates remains mixed with the US Federal Reserve expected to hike rates on 19 December and at least twice next year. However, we don't expect either the New Zealand or Australian central banks to raise rates before the end of 2019. This should result in a slight depreciation of the NZ dollar against the US dollar over the next twelve months.

Company earnings are being revised downwards in the United States, Europe and Australia because of rising costs and competitive pressures. In New Zealand, Fletcher Building, Metro Glass, NZME, Gentrack and several NZX mid-cap and small-cap companies have announced profit downgrades. Mainfreight was a notable exception with a positive result and outlook.

We expect market conditions to remain volatile but there is a reasonable chance of a pre-Christmas rally, particularly if the US/China trade war stays out of the headlines.

Milford KiwiSaver Plan Monthly Review as at 30 November 2018

Conservative Fund

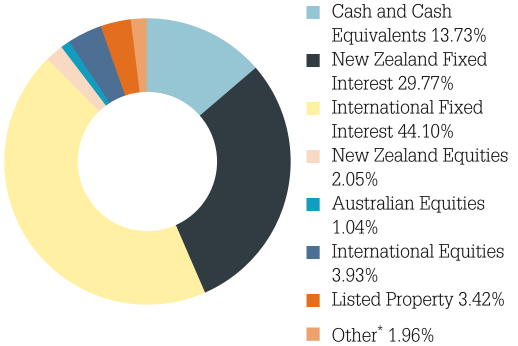
Portfolio Manager: Paul Morris

Performance across the broad asset classes into which the Fund is invested was mixed in November, culminating in a negative return of 0.3% in the month, but a positive 2.5% return over one year. Australasian shares were mixed while the contribution from global shares was somewhat offset by a stronger NZ dollar, due to the Fund's small foreign currency exposure. The return from the Fund's corporate bond holdings was negative (corporate bonds underperformed government bonds).

This month's return was irrespective of the Fund's defensive positioning. Over recent months we have increased cash and bond holdings at the expense of the allocation to shares. We have also reduced the corporate bond portfolio risk by improving credit quality and shortening maturity.

Looking forward, we remain cautiously optimistic for economic growth, albeit noting myriad risks. Valuations across bonds and shares are now less stretched but waning global monetary support means medium-term returns may moderate relative to recent years. Moreover, they are likely to be accompanied by higher volatility. We will therefore retain cautious positioning, holding less shares than would be the long-run normal, and higher levels of cash and fixed interest. Within fixed interest we will continue to limit interest rate exposure and hold a larger proportion of higher rated corporate bonds.

Actual investment mix[1]



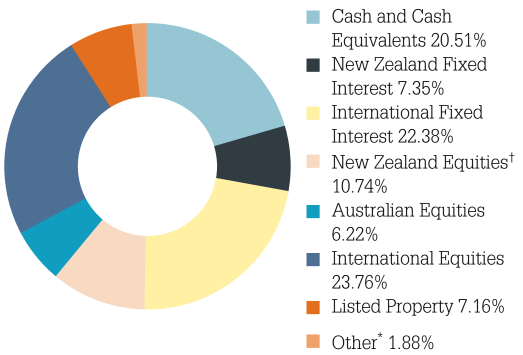
Balanced Fund

Portfolio Manager: Mark Riggall

The Fund fell 0.5% in November, with a 1-year return of 2.4%. Another difficult month for markets saw mixed share market returns whilst corporate bond prices fell and the NZ dollar rallied sharply. After the volatility in October, market confidence is slow to return as investors contend with an escalating trade war amid slowing global economic growth.

Global shares had a strong finish to the month as the Federal Reserve chairman backed away from previous remarks about how many more rate hikes are coming. Australian shares continued their fall as concerns about the housing market and its knock-on impact on the economy build. The performance of company bonds was poor in November, to a certain extent playing catch up following poor equity performance the previous month. NZ dollar performance was a headwind. The currency appreciated, reflecting stronger local economic data compared to slowing growth for the rest of the world.

The Fund remains defensively positioned with over 20% in cash and a share market exposure of around 48% (compared to 61% neutral). Asset class valuations have improved (but can't be described as cheap) and there has been some parting of the clouds around the trade war. However, global growth continues to slow and rising interest rates reduce the attractiveness of risk assets. The Fund will continue to be defensive and use market strength to reduce risk further.



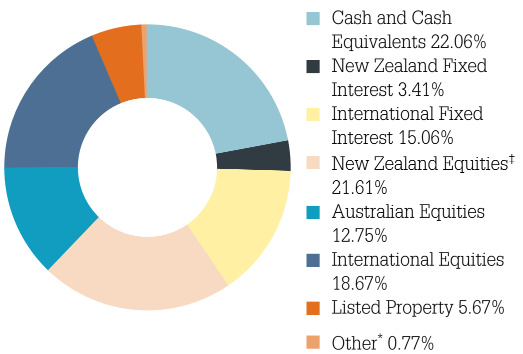
Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund fell 1.3% during the month and is up 5.3% over the last year. The market was negatively impacted by falls in Australian shares, weak credit markets and the rise in the value of the NZ dollar. The NZ dollar rose 5.4% versus the US dollar due to strong New Zealand employment data. Share markets remained volatile during the month in response to uncertainties over slowing global economic growth, Brexit, trade wars and falling Australian house prices.

Key positives for the month were Trade Me (+26.4%), Indian Bank HDFC (+14.1%) and airlines Air New Zealand (+10.0%) and Qantas (+9.0%). Trade Me rose following a takeover offer whilst the airlines benefited from the fall in oil price. During the month, we added to holdings in a2 Milk which provided a strong update at its AGM, sales for the first four months of the year were up 40.5% versus the previous year.

Looking forward we believe markets are likely to remain volatile given the previously mentioned uncertainties although, following falls, market valuations are now more attractive. Importantly whilst we expect growth to slow we believe it will remain at reasonably healthy levels. Given uncertainties, the strategy of the Fund is to have a lower than average weight to shares and higher weight to cash, and take advantage of market volatility to purchase companies which we believe are attractively valued.



†Includes unlisted equity holdings of 0.24% ‡Includes unlisted equity holdings of 2.03% *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	-0.30%	2.50%	5.96%	8.08%	9.15%	1.6908	71.6 M
Balanced Fund	-0.53%	2.41%	7.43%	9.31%	9.82%	2.1745	242.6 M
Active Growth Fund	-1.32%	5.28%	9.07%	10.70%	12.46%	3.4790	1,080.4 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.
*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)	0.88%	8.92%	14.42%	14.37%	16.68%
S&P/ASX 200 Accumulation Index (AUD)	-2.21%	-0.96%	7.69%	5.83%	9.42%
S&P/ASX 200 Accumulation Index (NZD)	-4.23%	-4.82%	6.49%	4.74%	6.07%
MSCI World Index (local currency)*	1.15%	1.64%	8.30%	8.24%	11.80%
MSCI World Index (NZD)*	-3.86%	0.04%	7.01%	10.42%	12.25%
S&P/NZX 90-Day Bank Bill Rate	0.15%	1.94%	2.19%	2.66%	2.67%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	0.49%	0.54%	2.33%	3.04%	3.26%
S&P/NZX NZ Government Bond Index	0.00%	3.93%	4.17%	5.27%	4.24%

*With net dividends reinvested

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

Conservative Fund	Balanced Fund	Active Growth Fund
Westpac Float 2021 2.59%	iShares MSCI EAFE Index Fund 4.23%	iShares MSCI EAFE Min Vol ETF 3.23%
Summerset 4.2% 2025 2.25%	Contact Energy 1.83%	Contact Energy 3.00%
BNZ 3.648% 2023 2.20%	Vanguard Intl Select Excl Index Fund 1.50%	Spark New Zealand 1.70%
Kiwibank 3.1% 2019 2.04%	Meridian Energy 1.19%	CYBG 8% 2049 1.67%
ANZ 2.91% 2019 1.58%	Spark New Zealand 1.04%	a2 Milk Company 1.65%
Christchurch City 3.58% 2024 1.45%	a2 Milk Company 0.96%	Delegat Group 1.47%
NZLGFA 2.75% 2025 1.36%	iShares MSCI EAFE Min Vol ETF 0.96%	Alphabet 1.23%
QBE 6.75% 2044 1.34%	ASB Bank 5.25% 2026 0.88%	Unibail-Rodamco-Westfield 1.21%
Investore Property 4.40% 2024 1.26%	Wellington Global Health Care 0.85%	Vanguard Intl Select Excl Index Fund 1.19%
NZLGFA 6% 2021 1.26%	Transurban Group 0.85%	Westpac 5% 2027 1.19%

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 November 2018.

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KiwiSaver a big winner

KiwiSaver figures continue to show that the scheme is a big winner with the investing public. New Zealanders contributed $3.3 billion to the scheme in the June 2018 year and $1.2b for the first four months of the current year.

The following table shows total funds transferred to fund managers since the scheme's inception in 2007, based on data from the IRD.

KiwiSaver contributions ($ millions)

	Money provided by			Total transferred
	Government	Employers	Individuals	
July-Oct 2018	801	721	1,217	2,739
June 2018 year	753	1,972	3,341	6,066
June 2017 year	715	1,828	3,042	5,585
June 2016 year	687	1,653	2,715	5,055
June 2015 year	804	1,543	2,455	4,802
June 2014 year	737	1,277	2,082	4,096
June 2013 year	677	833	1,560	3,070
June 2012 year	1,044	866	1,338	3,248
June 2011 year	999	740	1,171	2,910
June 2010 year	962	626	1,060	2,648
June 2009 year	839	355	923	2,117
June 2008 year	572	63	402	1,037
Total	9,590	12,477	21,306	43,373

Since the scheme's inception $43.4b has been transferred to fund managers with 22.1% coming from the Crown, 28.8% from employers and 49.1% from individuals.

Scheme members have had great value for their money because they have contributed $21.3b but have $43.4b of investable funds, excluding investment gains.

The latest Reserve Bank statistics show that total KiwiSaver funds, including investment returns, were $53.6b at the end of September.

However, that figure doesn't include withdrawals. $3.9b has been withdrawn due to retirement, death, permanent emigration, serious illness or for some other reason. Plus a further $3.2b has been used for first home and financial hardship reasons.

Thus, the overall benefit is even greater as Milford estimates that for a total investment by members of $24.5b (which includes voluntary contributions made directly to providers), the total KiwiSaver value has been around $60.7b.

Consequently, it is not surprising that KiwiSaver, which at the end of October had over 2.9 million members, is such a popular scheme.

Consumer NZ People's Choice Award – KiwiSaver

Morningstar Fund Manager of the Year – KiwiSaver Category, NZ

FundSource 2018 KiwiSaver Manager of the Year

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