

Trans-Tasman Bond Fund

Portfolio Investment Entity

Quarterly Fact Sheet as at 31 December 2018



Portfolio Managers



Paul Morris
Portfolio Manager



David Lewis
Co-Portfolio Manager

The final quarter of 2018 capped off a reasonable year for Australasian bonds. A slower economic growth outlook reduced expectations for interest rate increases, pulling market interest rates lower. This helped bond prices, benefiting the Fund's (increased) interest rate exposure.

The Fund's main exposure remains to corporate bonds. Australasian corporate bonds moderately underperformed government bonds, as their interest rates (or yields) did not fall as much. Nonetheless, that represented outperformance relative to offshore peers. Global corporate bonds had a weak year, the weakest relative to global government bonds since 2008, especially in the last quarter. Cognisant of the growing list of market risks we had reduced holdings in offshore bonds of Australasian issuers to the lowest in the Fund's history. Nevertheless, this small exposure was a headwind relative to benchmark.

During the quarter, considering elevated risks, we continued to improve the quality of the Fund's corporate bond holdings; increasing the average credit rating and reducing the subordinated bond allocation to the lowest in Fund history. We also reduced the average maturity of holdings and increased the cash holding, through further sales of expensive Australasian corporate bonds.

Looking forward, factors including slower Chinese economic growth, soft business confidence and weak housing markets now see the market pricing a chance of interest rate cuts in New Zealand and Australia. Offshore expectations for tighter central bank policy have also reduced on the weaker global growth outlook, lower inflation risk (helped by lower energy prices) and a spike in financial market volatility. Central bank policy no longer appears on a pre-set

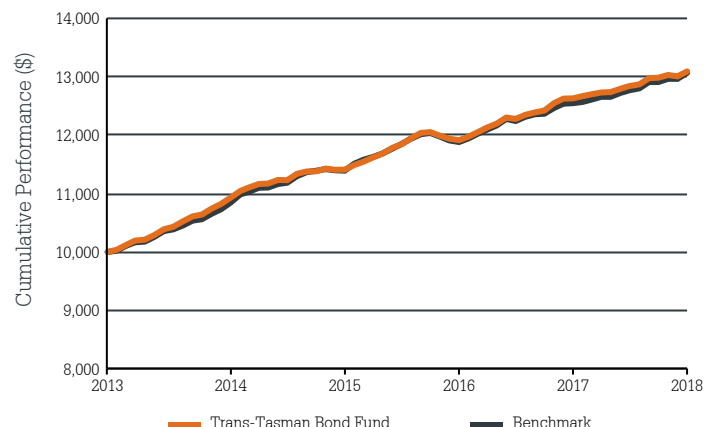
tightening path and instead has become increasingly dependent on incoming data.

The Fund's positioning will therefore need to be nimble. This should suit our active management approach. For now, given myriad known risks it remains prudent to retain the Fund's cautious positioning; limiting the exposure to offshore bonds of Australasian issuers, holding higher rated corporate bonds and keeping an elevated allocation to cash (available to buy any attractively priced bonds). We will also retain the current interest rate exposure (which is close to benchmark).

The return outlook is however reasonable as risks to growth in Australasia and receding inflation threats should cap market interest rates, even if we remain cognisant and wary of the risks from offshore. Ongoing support from insufficient new domestic bond issuance to satiate investor demand should also limit the risk of corporate bonds underperforming government bonds, albeit we do remain somewhat wary of valuations in some sectors.

Cumulative Fund Performance

(after fees and before tax)



Assumes the growth of \$10,000 invested at the Fund's inception date, and assumes reinvestment of distributions.

Key Fund Facts

Objective¹	Positive, low volatility return that exceeds the relevant benchmark over a minimum of three years
Description	Primarily invests in trans-Tasman fixed interest securities
Target Allocation	100% Income Assets / 0% Growth Assets
Neutral FX Exposure	0%
Net Asset Value (NAV)	\$422.2 M
Yield²	3.18%
Average Credit Rating	A
Duration	2.9 years
Rating Categories	Inv.Grade 85% / High Yield 1% / Unrated 6%

Inception Date	2 December 2013
Current Distribution	0.75 cents per unit (Quarterly)
Benchmark	50% x S&P/ASX Corporate Bond 0+ Total Return Index (100% NZD-hedged) + 50% x S&P/NZX Investment Grade Corporate Bond Total Return Index
Base Fund Fee³	0.75%
Performance Fee	Not applicable
Total Fund Fees⁴	0.75%
Risk Indicator	<div style="display: flex; justify-content: space-between;"> Lower risk Higher risk </div> <div style="text-align: center;"> </div> <div style="display: flex; justify-content: space-between;"> Potentially lower returns Potentially higher returns </div>

Investment Performance after fees as at 31 December 2018⁵

Unit Price: \$1.121

	3 Months	6 Months	1 year	3 years (p.a.)	5 years (p.a.)	Since inception (p.a.)
Milford Trans-Tasman Bond Fund (Gross Of Tax)	0.83%	1.95%	3.66%	4.69%	5.46%	5.44%
After Tax 10.50%	0.75%	1.74%	3.27%	4.19%	4.87%	4.86%
After Tax 17.50%	0.69%	1.61%	3.01%	3.86%	4.49%	4.48%
After Tax 28.00%	0.60%	1.40%	2.62%	3.36%	3.91%	3.90%
Benchmark	1.22%	2.34%	4.14%	4.68%	5.45%	5.41%

Top Fixed Interest Holdings

Holdings	% of Fund's NAV
Christchurch City Holdings 3.58% 2024	3.32%
New Zealand Local Government Funding Agency 6% 2021	2.86%
New Zealand Local Government Funding Agency 2.75% 2025	2.85%
NZ Govt. Inflation Indexed 2.00% 2025	2.83%
Spark New Zealand 3.37% 2024	2.39%
Summerset Group Holdings 4.2% 2025	2.31%
Bank of New Zealand 3.648% 2023	2.30%
ING Group Float 2021	2.07%
Suncorp-Metway 3% 2023	2.02%
Auckland City Council 3.17% 2023	1.94%
ANZ Bank 3% 2019	1.90%
ASB Bank 6.65% 2024	1.84%
ANZ Bank 2.9% 2019	1.79%
ANZ Bank 3% 2019	1.78%
Vector 4.996% 2024	1.77%
Commonwealth Bank Float 2023	1.74%
Westpac Banking Corporation Float 2023	1.61%
Suncorp-Metway 3.75% 2019	1.51%
Sydney Airport 3.76% 2020	1.46%
Lonsdale Finance 3.9% 2025	1.45%

Note: Fixed interest securities are reported in the following format: Issuer name, interest (coupon rate), maturity year.

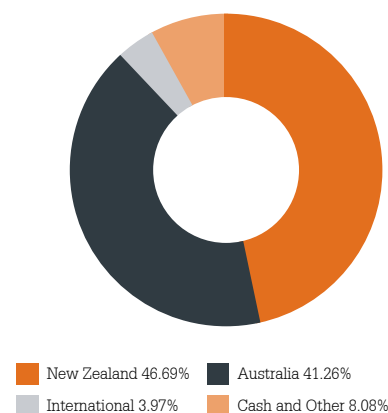
Current Asset Allocation

	Actual Investment Mix	Neutral Investment Mix
Cash and Cash Equivalents	8.08%	3.00%
New Zealand Fixed Interest	48.55%	48.50%
International Fixed Interest	43.37%	48.50%
New Zealand Equities	0.00%	0%
Australian Equities	0.00%	0%
International Equities	0.00%	0%
Other	0.00%	0%

Sector Exposure

Allocation	Weight %
Financials	41.88%
Government	15.57%
Utilities	8.44%
Industrials	8.14%
Real Estate	6.31%
Communication Services	5.24%
Health Care	2.31%
Energy	1.44%
Other Sectors	2.59%
Cash and Other	8.08%

Country Exposure



1. After the base fund fee but before tax. 2. Yield (before tax and fees) for underlying investments in the Fund. 3. Where applicable, the Base Fund Fee includes an estimate of non-related underlying fund charges. 4. The Total Fund Fees comprise the Base Fund Fee and any estimated Performance Fee. Please refer to the Product Disclosure Statement for more information as to how these are calculated. 5. Includes the reinvestment of distributions. Returns prior to 1 March 2018 are from when the Fund was previously offered to wholesale investors only and have been adjusted for the current Total Fund Fees. Please note past performance is not a guarantee of future returns.

Please refer to the 'Glossary for the Quarterly Fact Sheet' at milfordasset.com/fact-sheet for more information about the data published within this document.

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