Milford KiwiSaver Plan Monthly Review
April 2019

Market and Economic Review

March saw significant moves in global and local bond markets whilst share markets were mixed following the strong performances of the previous two months.

Global central banks are shifting to a more cautious stance as economic growth continues to slow. This was cemented in March by the US Federal Reserve indicating that there would be no rate hikes this year. The Reserve Bank of New Zealand also changed tack, signalling that the next direction of the Official Cash Rate will likely be lower.

In response, bond markets have rallied strongly, pushing interest rates on longer-term government bonds sharply lower (bond prices go up when interest rates go down).

- US 10-year bond yields finished the month at 2.41%, the lowest level for 18 months.
- German 10-year bond yields are negative again at -0.07%, the lowest level since 2016.
- Australian and NZ 10-year bond yields are at the lowest levels in modern history at 1.78% and 1.81% respectively.

This is significant and a key driver of Fund returns as many shares that we invest into are highly sensitive to interest rates, notably the high dividend paying 'income' stocks.

Stocks such as Charter Hall Group (+16.7%), Transurban Group (+5.9%), Meridian Energy (+16.1%) and Chorus Ltd (+15.6%) are all high dividend paying stocks in Australia and New Zealand that our funds have significant holdings in.

The NZX has a high proportion of shares that offer high dividend yields, and this helped propel the NZX 50 Gross Index up 5.6%. This compares to the ASX 200 Index up 0.7%, and the MSCI World Net Total Return Index up 1.6%.

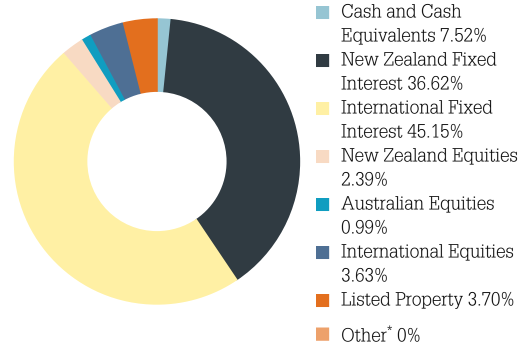
Despite the slowdown, the global economy is still expanding and there are reasons for optimism. There are signs of an impending US-China trade deal. China itself has resorted to stimulating its economy again to combat the slowdown. In Europe, Brexit continues to weigh on sentiment but this year governments are set to add fiscal stimulus for the first time in a decade.

Global share markets are already reflecting these more positive developments. Elevated uncertainty around growth and company earnings will continue to drive market volatility, but lower interest rates provide a more favourable environment for equities.

Conservative Fund

Portfolio Manager: Paul Morris

Actual investment mix[1]



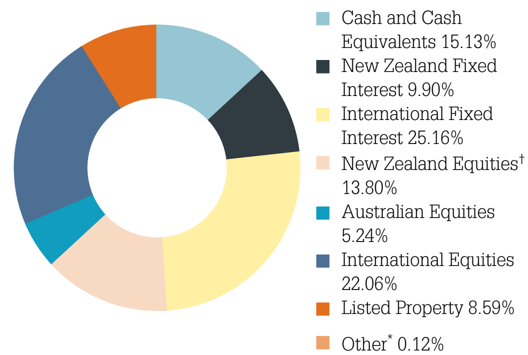
The Fund benefited in March from another fall in market interest rates, culminating in a return of 1.2% in the month. Many developed world economies are pricing rate cuts for this year, including NZ, Australia and the US.

There remains concern for the slowdown in global economic growth. Brexit and trade negotiations have also dragged on. Markets have however focused on further evidence global central bank monetary policy has shifted to a more supportive stance. The ensuing hunt for yield has benefited the Fund's corporate bond holdings, and helped its income focused share exposure outperform the broader share market. It also helped global shares shrug off slowing earnings growth. Noting the Fund's conservative risk profile we retained moderately defensive positioning; a lower exposure to shares and high-yield corporate bonds than the long term normal.

Looking forward, the lower interest rate outlook should support bonds and income shares, supporting Fund returns, if not as high as last month. Supportive demand for Australasian, but especially New Zealand, income shares means we will likely increase this exposure. For now, we prefer not to increase high-yield bond exposure, given valuations are generally no longer cheap, but will deploy opportunistically in NZ corporate bonds. The Fund's interest rate exposure remains higher than last year but is still low.

Balanced Fund

Portfolio Manager: Mark Riggall



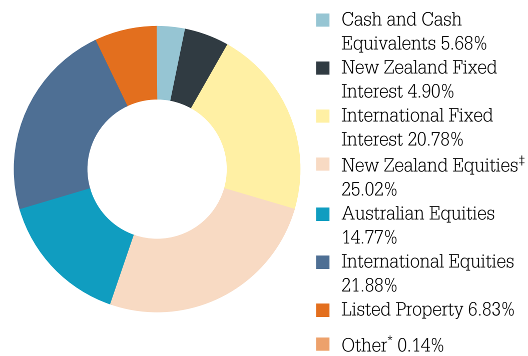
The Fund returned 2.2% in the month, with a 1-year return of 6.8%. Global share markets have recovered much of their losses of late 2018. Coincidentally, economic data has shown growth stabilising whilst central banks have signalled less interest rate hikes or even cuts.

These changes have given us more confidence in the market outlook and so the Fund has been adding back exposure to growth assets. This has primarily been in NZ shares as they benefit from lower interest rates and there is less economic uncertainty compared to offshore. Further additions to US shares have also been made as these will also benefit from the stabilisation in growth. Finally, the Fund has also been increasing its Australian share exposure, which has been underweight recently. Much of the share investments have been made by the underlying funds into high dividend paying 'income' stocks. These are likely to continue to see demand from investors seeking returns higher than cash in an uncertain growth environment.

Our more positive short-term view on shares is tempered by the fact we are in the later stages of the global economic cycle. At some point global growth is likely to materially slow and central banks are already at a cautious setting meaning policy response may be less effective. This combined with the ongoing short-term risks from the US-China trade war means the Fund remains slightly defensively positioned.

Active Growth Fund

Portfolio Manager: Jonathan Windust



The Fund rose 2.5% in March benefiting from the strong performance of shares and fixed income as longer-term interest rates fell in response to more cautious central banks. Key beneficiaries were the Fund’s high dividend paying companies Meridian (+16.1%) and Contact Energy (+13.0%). Other key performers were Australian panel beating company AMA (+16.8%), Indian Bank HDFC (+14.6%) and Apple (+9.7%). AMA has a strong growth strategy of acquiring panel beaters at low valuations and generating strong cost savings as they integrate them into their network.

During the month the Fund increased exposure to shares. In NZ we purchased high dividend paying companies Contact Energy and Spark whose yields are attractive relative to low bond yields. In Australia we added to mining company Rio Tinto which is a beneficiary of rising iron ore prices and an improving outlook as the Chinese government looks to stimulate growth.

The short-term outlook for shares has improved in response to lower interest rates and government stimulus. However, it remains uncertain with concerns over slowing earnings growth, trade wars, falling house prices in Australia, Brexit and, in some cases, high valuations. Reflecting this environment, the Fund remains cautious with a lower than average weight in shares but remains active to isolate investments with strong risk adjusted returns.

†Includes unlisted equity holdings of 0.31% ‡Includes unlisted equity holdings of 2.16% *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.

Milford KiwiSaver Plan Monthly Review as at 31 March 2019

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	1.19%	5.46%	6.29%	8.02%	9.22%	1.7469	90.6 M
Balanced Fund	2.15%	6.83%	8.57%	9.62%	10.00%	2.2749	269.0 M
Active Growth Fund	2.50%	7.33%	10.10%	10.23%	12.54%	3.6420	1,199.7 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)	3.81%	12.57%	15.73%	14.73%	17.34%
S&P/ASX 200 Accumulation Index (AUD)	0.73%	12.06%	11.46%	7.40%	9.97%
S&P/ASX 200 Accumulation Index (NZD)	5.26%	3.60%	11.53%	6.88%	6.87%
MSCI World Index (local currency)*	1.61%	6.66%	11.17%	8.37%	10.60%
MSCI World Index (NZD)*	4.84%	6.43%	11.41%	11.09%	12.54%
S&P/NZX 90-Day Bank Bill Rate	0.16%	2.01%	2.09%	2.61%	2.64%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	0.15%	3.97%	2.50%	3.30%	3.23%
S&P/NZX NZ Government Bond Index	0.59%	6.36%	3.90%	5.33%	4.53%

*With net dividends reinvested

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

Conservative Fund	Balanced Fund	Active Growth Fund
ASB Bank 6.65% 2024 4.03%	Contact Energy 2.52%	Contact Energy 4.39%
ANZ 2.9% 2019 3.01%	iShares MSCI EAFE Min Vol ETF 2.41%	iShares MSCI EAFE Min Vol ETF 3.34%
NAB Float 2024 2.96%	a2 Milk Company 1.68%	Spark New Zealand 2.96%
Christchurch City 3.58% 2024 1.57%	Spark New Zealand 1.64%	a2 Milk Company 2.67%
QBE 6.75% 2044 1.37%	Meridian Energy 1.20%	CYBG 8% 2049 1.63%
ANZ Bank Float 2022 1.37%	ANZ Bank Float 2022 0.92%	Westpac 5% 2027 1.44%
NZ Govt. Inflation Indexed 2% 2025 1.34%	Vontobel Sust. EM Leaders 0.90%	Aristocrat Leisure 1.29%
ASB Bank Float 2022 1.33%	Wellington Global Health Care 0.89%	ANZ Bank Float 2022 1.27%
ANZ Bank 3.03% 2024 1.33%	ASB Bank 5.25% 2026 0.83%	Delegat Group 1.27%
Investore Property 4.40% 2024 1.26%	Transurban Group 0.82%	Transurban Group 1.20%

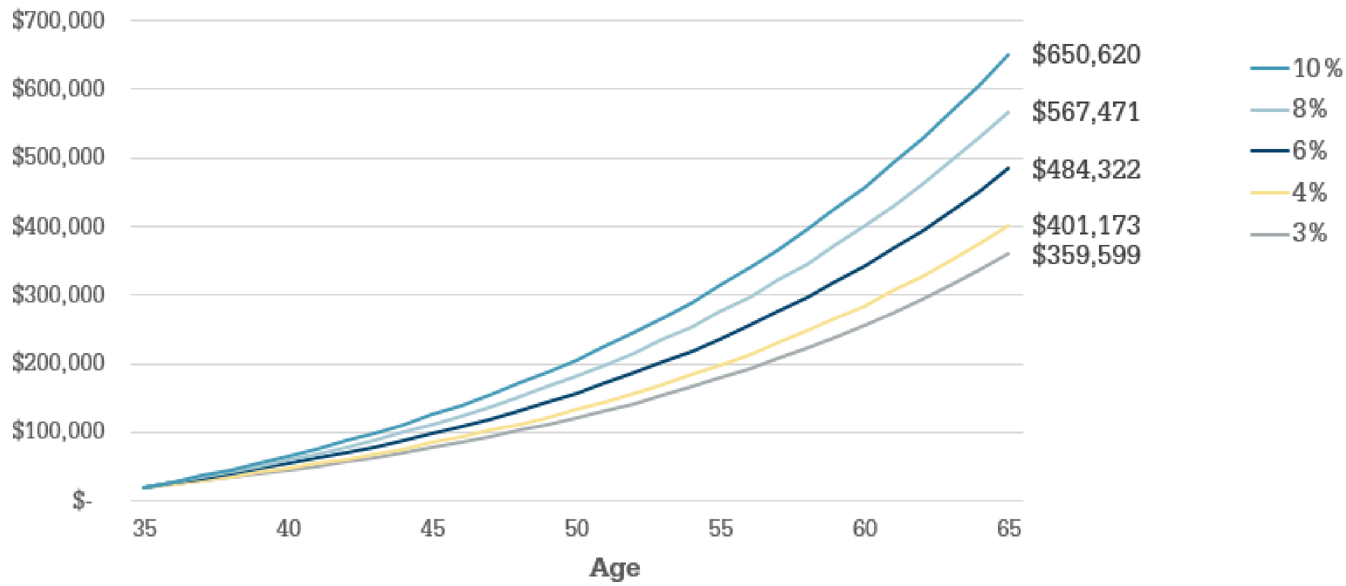
Note: Fixed interest securities are reported in the following format: Issuer name, interest (coupon) rate, maturity year, size of fund holding (as % of total portfolio).

Milford staff have approximately $10.1 million invested in the Milford KiwiSaver Plan as at the end of March 2019.

What could new contribution rates mean for you?

There are two new contribution rates available for KiwiSaver investors. Previously, you could only contribute at 3%, 4% or 8% of your salary. From 1 April this year, you can now also choose to contribute at 6% or 10%. Plus you can still make additional 'voluntary' contributions of any amount. So, what's the right rate for you?

Contributing a bit more now, makes a big difference to your future



Assumptions: 35 year-old KiwiSaver investor earning $50,000 gross salary, $20,000 starting KiwiSaver balance, 8% p.a. net investment return, 3% employer contributions, 2.5% p.a. wage growth and no withdrawals. Balances shown in today's dollars, adjusting for assumed 2% p.a. inflation. Please note past performance is not a guarantee of future performance.

Our KiwiSaver Retirement Calculator allows you to estimate what your own KiwiSaver investment could look like at different contribution rates. You can try the tool here.

It's important to remember that when investing in KiwiSaver, your savings are locked-in until age 65. Because of this, some people prefer to invest their additional savings in other investment vehicles, such as PIE Investment Funds.

If you do decide you want to increase your KiwiSaver contribution rate, the process is very simple. Just tell your employer what rate you want to contribute at and they will adjust it for you – that's it.

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