MILFORD

Milford Unit Trust PIE Funds 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.

Milford Unit Trust PIE Funds Monthly Review as at 31 March 2019

Conservative Fund

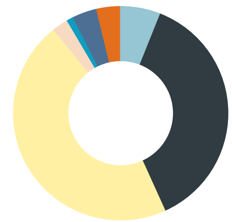
Portfolio Manager: Paul Morris

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.

Actual investment mix[1]



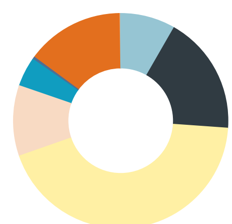
Diversified Income Fund

Portfolio Manager: David Lewis

The Fund returned 2.0% in March and 9.3% in the past year. March capped off a particularly strong quarter for the Fund, rising 5.3%. There are a few key drivers we would highlight behind this quarter's return. Firstly, the US Federal Reserve moved to a more supportive monetary policy view - this helped push global interest rates lower, leading investors to rush towards the higher yields on offer from corporate bond markets and dividend oriented shares. Secondly, the Fund enjoyed strong returns from some of its largest individual holdings, partly reflecting the tailwinds above. In particular, over the quarter Contact Energy rose 21.3%, Meridian 25.9%, and Charter Hall 38.4%.

Focusing on March, the Fund increased its risk exposure slightly, including adding to Australian share positions in Orora (packaging), Origin Energy (gas and electricity), and selected listed property companies. On the bond side, we added to several higher quality issues in NZ dollars including ANZ Bank.

In terms of our strategic view, we retain a 'moderately cautious' approach. In the shorter term, markets may continue to push higher, supported by low interest rates and signs of improving economic data in the US and China. However, valuations in certain markets (high-yield bonds, for example) remain elevated, and geopolitical risks are still present (for example trade negotiations and Brexit).



*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.

Balanced Fund

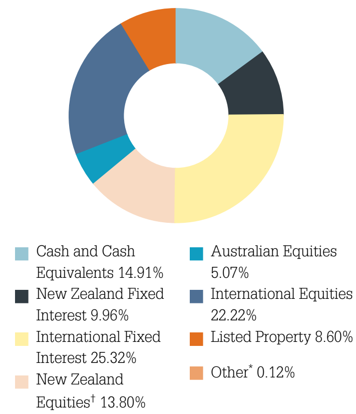
Portfolio Manager: Mark Riggall

The Fund returned 2.1% in the month, with a 1-year return of 6.6%. 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.

Actual investment mix[1]



Active Growth Fund

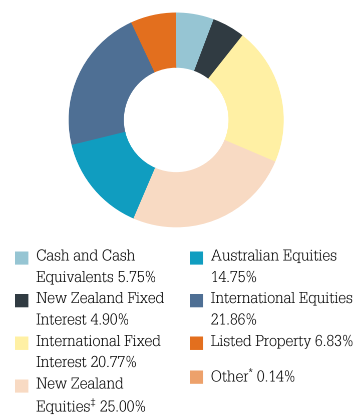
Portfolio Manager: Jonathan Windust

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.

Please note this Fund is closed to new investors.



†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.

Australian Absolute Growth Fund

Portfolio Manager: William Curtayne & Wayne Gentle

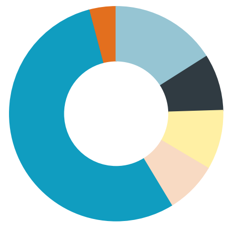
The Fund returned 1.7% in March, which was a subdued month for the broader Australian share market. Markets continued to overlook the slowing growth outlook and draw confidence from falling long-term interest rates.

During the month we went on a research trip to China to check on the health of the economy and the outlook for commodity prices. Economic conditions appear to be stabilising after policy makers loosened monetary conditions and cut tax rates incrementally over the last year. This should support demand for iron ore – Australia's largest export – when at the same time there is a shortage of iron ore supply following the tragic collapse of a large mine tailings dam in Brazil. We increased our position in iron ore mining companies BHP and Rio Tinto following this trip.

Top contributors for the month were Contact Energy (+13.0%), Transurban (+5.9%), Collins Foods (+12.6%) and AMA Group (+16.8%). These companies benefitted from the fall in long-term interest rates and an increase in demand for defensive companies. Weaker contributors were Commonwealth Bank (-4.5%), Smart Group (-6.6%) and Westpac (-3.9%).

Looking forward, the upcoming Australian Federal election will be a key area of focus. Domestic conditions are slowing with the housing market weakness, but the recent increase in the iron ore price provides a large boost to the government's tax revenue which could be spent on supportive policies.

Actual investment mix[1]



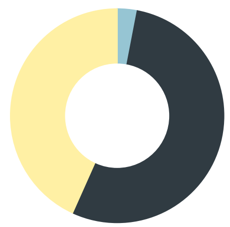
Trans-Tasman Bond Fund

Portfolio Manager: Paul Morris

Global market interest rates continue to fall. Closer to home the market is pricing a material chance that both the Reserve Bank of New Zealand (RBNZ) and Australia (RBA) will cut their respective cash rates this year. This has benefited the Fund's interest rate exposure, which remained close to its benchmark, and was the major contributor to the March return of 1.0%.

The Fund remains primarily exposed to Australasian corporate bonds which in general moderately outperformed government bonds. An exception was New Zealand non-financial corporate bonds. Their interest rates did not fall as much, which weighed on performance relative to the benchmark, albeit we expect them to catch up in time given improved valuations. In March we benefited from attractively priced new bonds from the likes of IAG Insurance and ANZ Bank NZ to sell more expensive bond holdings. We also increased the weighting towards New Zealand corporate bonds given improved valuations relative to Australia and likely strong demand from several scheduled bond redemptions.

Looking forward, the lower interest rate outlook should support moderate returns, albeit lower than those in recent months. We will retain close to, but just below, benchmark interest rate exposure as interest rate markets may consolidate until economic data justifies, or central banks deliver, rate cuts.



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Global Corporate Bond Fund

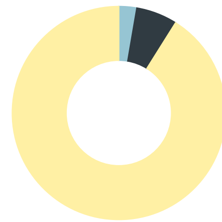
Portfolio Manager: Paul Morris

Soft global economic data and a further supportive shift in global monetary policy precipitated another leg down in market interest rates, contributing to a Fund return of 1.1% in March. Many developed economies now price extended periods of low, or in the case of the US and Australasia, lower interest rates. 10-year German government interest rates are negative again!

Demand for yield and supportive equity markets saw corporate bonds generally keep up with government bonds, consolidating recent outperformance. We added to corporate bond holdings, including new issues from Lloyds Bank, IAG Insurance and Incitec Pivot (global chemicals). Known risks remain (tariffs and Brexit) but low interest rates, supportive monetary policy and modest (but positive) growth mean we are optimistic for moderate returns, albeit lower than in recent months.

That said, elevated global corporate debt levels, valuations that are no longer noticeably cheap and slower earnings growth mean we retain a defensive stance; a higher average credit rating on bond holdings than the benchmark, with less high-yield bonds. On market strength that may be a return headwind relative to the benchmark, but should ensure lower risk. We retain slightly below neutral interest rate exposure, wary of extending this as interest rate markets may consolidate until economic data justifies, or central banks deliver, rate cuts.

Actual investment mix[1]



Cash and Cash Equivalents 2.70%
New Zealand Fixed Interest 6.23%
International Fixed Interest 91.07%
Other* 0%

Global Equity Fund

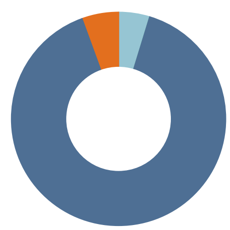
Portfolio Manager: Felix Fok

The Fund gained 2.0% in March. Global markets continued to rebound from last December, fuelled by lower global interest rates and expectations of a possible trade agreement between the US and China.

The biggest positive contributor was HDFC Bank (+14.6%) in India. The country has elections scheduled for May, and investors are liking the odds of re-election by the incumbent, reformist Narendra Modi. The Prime Minister has executed difficult, unpopular policies in the past 3 years in the name of ‘short term pain, long term gain’. HDFC Bank is a best-in-class operator in the important banking sector that is tied to domestic progress. The telecommunication tower holdings, Crown Castle (+8.8%) and American Tower (+11.9%), performed well as interest rates fell. Furthermore, the earnings outlook for towers is boosted by upcoming investments in the next generation of wireless communications – 5G.

On the flipside, Zillow (-16.9%) came under profit taking after spiking higher the month before on management changes. The Fund had trimmed its holding on strength but continues to hold a position on Zillow’s dominance in US residential property listings. Managers, MTX Vontobel Emerging Markets continued a strong start to 2019 by returning positive in March (+2.9%) and outperforming its benchmark.

Overall, the economic picture has gradually improved and is showing signs of stabilisation. However, concerns over geopolitical risks and slowing growth will likely result in continued market volatility. The current backdrop is good for stock picking.



Cash and Cash Equivalents 4.71%
International Equities 89.74%
Listed Property 5.55%
Other* 0%

*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.

Trans-Tasman Equity Fund

Portfolio Manager: Sam Trethewey & Wayne Gentle

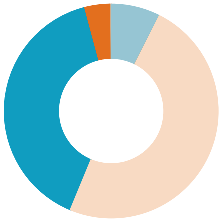
March was another very strong month for the Fund (+3.4%) and the local markets. The NZX 50 Gross Index finished the month up 5.6%, at all-time highs and around 5% above its previous peak in September 2018. The Australian market was more subdued (+0.7%) following a strong performance in January and February.

The key driver of returns was the 'yield trade' rather than any individual stock performance. The comments from central banks indicating that there would be no further interest rate hikes this year fuelled demand for high dividend paying stocks and local exposures benefited strongly. The move was best illustrated by the returns of the electricity companies Meridian Energy (+16.1%) and Contact Energy (+13.0%). Both are significant holdings of the Fund.

Over the month we continued to increase our positions in healthcare exposures Fisher & Paykel Healthcare and CSL. Both companies have strong competitive positions and had experienced a period of underperformance. We reduced our position in Auckland Airport into strength and reduced Qantas on concerns around the Australian consumer and investor positioning.

Looking ahead we will continue to focus on stock selection. The challenge at present is domestic cyclical exposures appear priced for a weakening outlook, while growth companies in some cases earn a premium to global peers due to their scarcity. The approach has been to reduce the number of individual holdings and concentrate the Fund where we have conviction.

Actual investment mix[1]



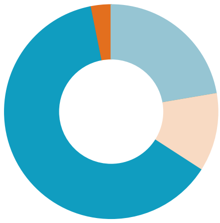
Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins

The Fund returned 1.7% for the month against our benchmark which rose 0.4%. The small cap market consolidated strong gains over the first two months of the year, despite a slowing global growth outlook. Following the rally, valuations are elevated with the Small Industrials Index now trading at a 11%premium to its 5-year average.

Performance was led by companies such as Collins Foods (+12.6%), Contact Energy (+13.0%) and Afterpay Touch (+13.6%). Collins Foods' main assets are KFC franchises in Australia, Germany and the Netherlands. It is not a high growth business, but it is defensive and manages to achieve reasonable growth each year by opening and acquiring new stores. Near-term growth should be tracking above average as it rolls out a delivery option across the network. Contact Energy was supported by the RBNZ signal of lower rates in the future. Afterpay Touch rallied on high US expectations following increasingly bullish data points. Laggards included Seven Group (-7.5%), Bapcor (-8.6%) and Smartgroup (-6.6%).

The Fund remains conservatively positioned, believing better opportunities to deploy capital on the long side will present themselves in the weeks and months ahead. In the meantime, we'll continue searching for attractive company specific opportunities that can prosper regardless of the broader economy.



Upcoming Distributions	Target	Payment Date
Trans-Tasman Bond Fund	0.75 cents (Quarterly)	19/06/2019
Global Corporate Bond Fund	0.75 cents (Quarterly)	19/06/2019
Conservative Fund	0.75 cents (Quarterly)	23/04/2019
Diversified Income Fund	1.6 cents (Quarterly)	22/05/2019
Trans-Tasman Equity Fund	1.5 cents (Biannually)	19/09/2019

*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 Unit Trust PIE Funds 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 $
Multi-Asset Funds							
Conservative Fund*	1.21%	5.59%	6.40%	—	6.44%	1.1372	242.1 M
Diversified Income Fund*	2.05%	9.29%	8.96%	10.67%	11.50%	1.7276	2,073.8 M
Balanced Fund	2.09%	6.61%	8.40%	9.30%	9.76%	2.2296	606.1 M
Active Growth Fund#	2.50%	6.83%	9.80%	9.97%	12.41%	3.5927	1,023.9 M
Australian Absolute Growth Fund	1.65%	2.77%	—	—	1.74%	1.0168	143.6 M
Cash and Fixed Income Funds							
Cash Fund	0.15%	—	—	—	—	1.0015	32.9 M
Trans-Tasman Bond Fund*^	1.04%	5.05%	4.80%	5.55%	5.61%	1.1375	432.7 M
Global Corporate Bond Fund*^	1.08%	3.37%	—	—	4.52%	1.0302	346.0 M
Equity Funds							
Global Equity Fund†	1.99%	4.83%	8.19%	7.53%	7.59%	1.5354	464.2 M
Trans-Tasman Equity Fund*	3.38%	13.08%	14.00%	11.97%	11.19%	2.7838	334.5 M
Dynamic Fund	1.72%	1.63%	10.20%	9.67%	11.29%	1.7829	217.9 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 Corporate Bond Fund: 1 February 2017, Australian Absolute Growth Fund: 1 March 2018, Cash Fund: 1 March 2019.
*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.
†Returns prior to 1 October 2018 are from when the Fund was structured to achieve an absolute return.
#The Active Growth Fund is closed to new investors.

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)	5.88%	19.55%	14.69%	15.30%	17.31%
S&P/ASX 200 Accumulation Index (AUD)	0.73%	12.06%	11.46%	7.40%	9.97%
S&P/ASX 200 Accumulation Index (NZD)	0.45%	9.67%	9.17%	6.85%	6.96%
MSCI World Index (local currency)*	1.61%	6.66%	11.17%	8.37%	10.60%
MSCI World Index (NZD)*	1.24%	10.02%	11.34%	12.05%	12.08%
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)	1.79%	4.93%	2.82%	3.64%	3.50%
S&P/NZX NZ Government Bond Index	1.85%	7.38%	4.26%	5.74%	4.74%

*With net dividends reinvested

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

Conservative Fund	Diversified Income Fund	Balanced Fund	Active Growth Fund	Australian Absolute Growth Fund	Cash Fund
ASB Bank 6.65% 2024 4.10%	Contact Energy 3.34%	Contact Energy 2.53%	Contact Energy 4.39%	CSL 5.06%	Kiwibank 2.55% 2019 13.99%
ANZ 2.9% 2019 3.06%	Meridian Energy 1.93%	iShares MSCI EAFE Min Vol ETF 2.48%	iShares MSCI EAFE Min Vol ETF 3.34%	Westpac Banking Corp 4.37%	TSB Bank COD 2019 9.40%
NAB Float 2024 3.00%	ASB Bank 5.25% 2026 1.85%	a2 Milk Company 1.68%	Spark New Zealand 2.96%	Commonwealth Bank 3.91%	ANZ 2.89% 2019 9.31%
Christchurch City 3.58% 2024 1.59%	QBE 6.75% 2044 1.75%	Spark New Zealand 1.64%	a2 Milk Company 2.67%	Transurban Group 3.86%	Westpac CMD 32-Day 9.12%
QBE 6.75% 2044 1.39%	ANZ Bank Float 2022 1.60%	Meridian Energy 1.20%	CYBG 8% 2049 1.62%	Rio Tinto 3.17%	Port of Tauranga COD 2019 9.10%
ANZ Bank Float 2022 1.39%	Westpac 4.695% 2026 1.53%	ANZ Bank Float 2022 0.92%	Westpac 5% 2027 1.43%	National Australia Bank 3.10%	Auckland Airport COD 2019 9.10%
NZ Govt. Inflation Indexed 2% 2025 1.37%	Argosy Property 1.51%	Vontobel Sust. EM Leaders 0.91%	Aristocrat Leisure 1.29%	Evolution Mining 2.66%	ANZ 2.91% 2019 7.09%
ASB Bank Float 2022 1.35%	Spark New Zealand 1.44%	Wellington Global Health Care 0.89%	ANZ Bank Float 2022 1.27%	Contact Energy 2.61%	Fonterra COD 2019 6.97%
ANZ Bank 3.03% 2024 1.35%	Kiwi Property Group 1.43%	ASB Bank 5.25% 2026 0.83%	Delegat Group 1.27%	BHP Group 2.61%	
Investore Property 4.40% 2024 1.28%	ANZ 2.91% 2019 1.39%	Transurban Group 0.82%	Transurban Group 1.20%	Smartgroup Corp 2.48%	

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

Trans-Tasman Bond Fund	Global Corporate Bond Fund	Global Equity Fund	Trans-Tasman Equity Fund	Dynamic Fund
Christchurch City 3.58% 2024 3.35%	BMO Float 2021 3.32%	Vontobel Sust. EM Leaders 5.20%	a2 Milk Company 8.89%	Collins Foods 3.53%
ASB Bank 6.65% 2024 2.99%	RBC Float 2019 2.87%	Wellington Global Health Care 5.12%	Fisher & Paykel Healthcare 5.39%	Credit Corp Group 3.01%
NZ Govt. Inflation Indexed 2% 2025 2.87%	NAB Float 2024 2.46%	Wellington Strategic Euro 4.56%	Spark New Zealand 5.20%	Seven Group Holdings 2.88%
ANZ Bank 3.03% 2024 2.57%	Microsoft 2.875% 2024 2.37%	Financial Select SPDR 3.16%	CSL 4.29%	Smartgroup Corp 2.83%
Spark New Zealand 3.37% 2024 2.38%	Apple 3.7% 2022 2.10%	Alphabet 2.37%	BHP Group 4.02%	Evolution Mining 2.79%
IBRD 2.5% 2024 2.36%	McDonald's 3% 2024 2.02%	Crown Castle 2.34%	Contact Energy 3.93%	Aristocrat Leisure 2.70%
ASB Bank Float 2022 2.32%	Bank of America Float 2024 2.01%	iShares Global Infrastructure 2.26%	Commonwealth Bank 3.69%	Afterpay Touch Group 2.66%
BNZ 3.648% 2023 2.32%	Intel 3.25% 2019 1.84%	Health Care Select SPDR 2.17%	Mainfreight 3.16%	Contact Energy 2.63%
ANZ Bank Float 2022 2.20%	HCA 4.75% 2023 1.81%	Technology Select SPDR 1.99%	Westpac Banking Corp 3.13%	EQT Holdings 2.63%
Transpower 2.73% 2024 2.13%	AT&T 3.45% 2023 1.63%	Vanguard Com. Serv. ETF 1.93%	Auckland Airport 2.89%	AUB Group 2.62%

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 and Milford staff have approximately $29.0 million invested across our Unit Trust PIE Funds as at the end of March 2019.

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