MILFORD

Milford KiwiSaver Plan Monthly Review

May 2019

Market and Economic Review

Global share markets extended their rally for a fourth month in April, leaving global shares close to the all-time highs reached in September 2018.

Economic data over the past month has shown that growth in China and the US has been improving. Compared to even recent expectations, global growth is proving to be resilient in the face of US government shutdowns, global trade wars and significant market volatility.

Companies have been reporting quarterly profits in the US and Europe this month, and these have also exceeded expectations.

Meanwhile, inflation data has been subdued the world over and central banks are concerned about inflation persistently undershooting targets. As a result, global interest rates have remained low despite the strong economic growth.

All of this is positive news for asset prices such as shares and corporate bonds. This month, the shares of growth companies have been the standout performers. Key market monthly returns were as follows:

- Global shares (MSCI World Net Total Return Index) up 3.8%, driven largely by performance of US technology companies.
- NZ shares (NZX 50 Gross Index) up 1.7% driven almost entirely by the performance of a2 Milk (up 17.2%).
- Australian shares (ASX 200 Index) up 2.4% with strong performance from the banks.

Considering the mix of stronger economic growth, better earnings and lower interest rates, the outlook remains reasonable despite the impressive year to date returns from markets.

Risks remain in the form of a yet to be completed trade deal between the US and China. A stronger US dollar could also be problematic for emerging markets, and weigh on US technology company earnings (given they earn a significant amount of revenue in other currencies). In Australia we are watching the looming election closely, as well as keeping an eye on the sagging housing market.

However, markets with high valuations are sensitive to interest rates remaining low as a driver of sentiment. On this front, the Reserve Bank of Australia (RBA) and the Reserve Bank of New Zealand (RBNZ) meet in May and both could potentially cut interest rates to further bolster the local economies and support markets.

While the outlook for returns is moderate, our focus remains on security selection and backing the companies that we believe will do well over the medium term.

Milford KiwiSaver Plan Monthly Review as at 30 April 2019

Conservative Fund
Portfolio Manager: Paul Morris

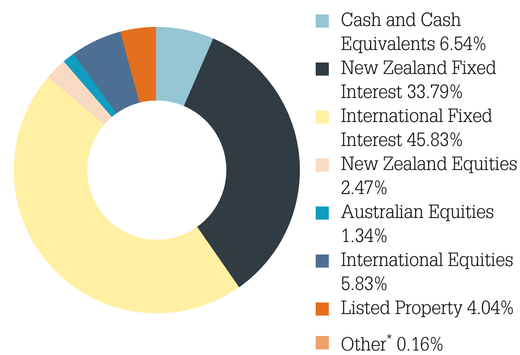
The Fund returned 0.8% in April, with positive contributions across its broad asset classes, contributing to a 1-year return of 5.8%.

Corporate bonds, in particular global corporate bonds, continued to deliver reasonable returns, outperforming government bonds. There was a notably strong performance from the Fund's global shares. Australasian shares also contributed positively but as market interest rates stabilised our income share focus did not outperform the broader market.

Bonds and shares are benefiting from central banks' recent shifts towards supportive monetary policy. Markets have also seen evidence to suggest economic growth and company earnings may be better than previously expected. We remain wary of valuations in parts of financial markets and are cognisant of late cycle risks. Nevertheless, acknowledging receding near-term risks, we slightly increased share exposure (using options as a lower risk approach), albeit this remains lower than our long-run neutral.

With market interest rates anchored by possible rate cuts, the Fund's interest rate exposure is higher than last year, but is still low. Looking forward, a low interest rate environment, combined with corporate earnings that may benefit from an extension to the economic cycle, should underpin moderate Fund returns but given valuations these are likely to be lower than in recent years.

Actual investment mix [1]

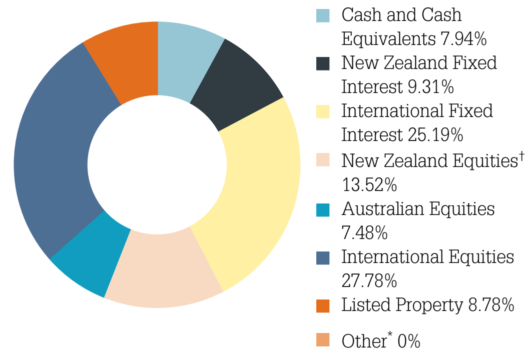


Balanced Fund
Portfolio Manager: Mark Riggall

The Fund returned 1.9% in the month, with a 1-year return of 7.2%. News of stronger global economic growth saw growth assets perform well in April, delivering the bulk of the performance.

Global shares rallied with technology company shares benefiting from stronger profits reported in April. Milford's Global Equity Fund has significant exposure to tech companies such as Microsoft (+10.7%) and Amazon.com (+8.2%) which were standout performers. In domestic markets, growth companies were similarly strong with a2 Milk (+17.2%) driving performance for the local share portfolio. Australian small caps also outperformed. The income portfolio saw positive returns with Milford's higher exposure to company bonds paying off as they outperformed government bonds in the month.

In recent weeks the Fund has been adding back exposure to growth assets and the Fund is now largely fully invested. The risks of a sharp economic slowdown in the near term have abated and with interest rates remaining contained (due to prevailing lower inflation) this provides a supportive investment backdrop. However, it is unlikely that we will see a sharp acceleration in growth or asset prices from here and so expect the pace of returns to be lower going forward. We remain on alert for further US-China trade news in addition to monitoring the evolution of this current growth upswing.



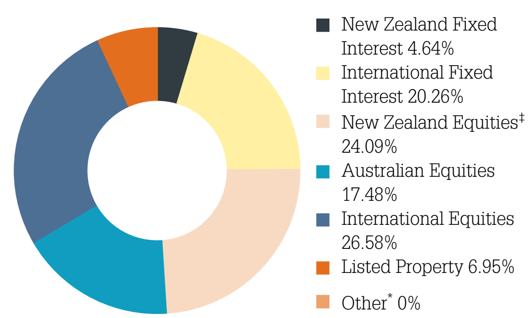
Active Growth Fund
Portfolio Manager: Jonathan Windust

The Fund rose 2.3% in April, benefiting from the strong performance of global shares and global fixed income, as investor risk appetite improved in response to a more stable economic and investment environment.

Key company performers during the month were global companies; JP Morgan (+15.5%), Apollo (+15.7%) and New Zealand companies; Pushpay (+17.8%), a2 Milk (+17.2%) and Serko (+14.8%). The Fund's fixed income portfolio also performed strongly up over 2.0% given strong demand and fundamentals for company bonds.

During the month the Fund added to its holding in Fisher and Paykel Healthcare which we believe is well managed, has a strong competitive position and importantly a long runway for growth. We trimmed several companies which have performed well during the month including a2 Milk. The exposure to global and Australian shares was increased during the month. This increase was largely through the purchase of options which allow us to participate in the upside, but limit the downside exposure.

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



†Includes unlisted equity holdings of 0.30% ‡Includes unlisted equity holdings of 2.09% *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 30 April 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	0.81%	5.82%	6.28%	7.81%	9.23%	1.7610	91.5 M
Balanced Fund	1.88%	7.21%	8.84%	9.87%	10.14%	2.3175	278.4 M
Active Growth Fund	2.26%	8.15%	10.47%	10.91%	12.67%	3.7237	1,241.3 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)	1.73%	19.81%	14.96%	15.25%	17.37%
S&P/ASX 200 Accumulation Index (AUD)	2.37%	10.41%	11.10%	7.52%	10.11%
S&P/ASX 200 Accumulation Index (NZD)	3.77%	8.79%	9.87%	7.06%	7.21%
MSCI World Index (local currency)*	3.77%	8.57%	12.23%	9.01%	11.44%
MSCI World Index (NZD)*	5.89%	12.50%	13.16%	12.88%	13.15%
S&P/NZX 90-Day Bank Bill Rate	0.16%	2.01%	2.08%	2.59%	2.63%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	0.06%	5.39%	2.78%	3.51%	3.42%
S&P/NZX NZ Government Bond Index	-0.33%	7.23%	4.02%	5.49%	4.46%

*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 3.95%	iShares MSCI EAFE Min Vol ETF 2.39%	Contact Energy 4.04%
QBE 6.75% 2044 1.42%	Contact Energy 2.32%	iShares MSCI EAFE Min Vol ETF 3.32%
ANZ 2.78% 2019 1.39%	a2 Milk Company 1.81%	Spark New Zealand 2.75%
ANZ Bank Float 2022 1.37%	Spark New Zealand 1.54%	a2 Milk Company 2.49%
NZ Govt. Inflation Indexed 2% 2025 1.30%	Meridian Energy 1.09%	CYBG 8% 2049 1.69%
ANZ Bank 3.03% 2024 1.30%	Vontobel Sust. EM Leaders 0.96%	Westpac 5% 2027 1.47%
NAB Float 2024 1.27%	Wellington Strategic Euro 0.95%	Aristocrat Leisure 1.34%
Investore Property 4.40% 2024 1.22%	Wellington Global Health Care 0.90%	Delegat Group 1.31%
ASB Capital Preference Shares 1.17%	Fisher & Paykel Healthcare 0.85%	Fisher & Paykel Healthcare 1.30%
BNZ 3.648% 2023 1.16%	Financial Select SPDR 0.84%	Unibail-Rodamco-Westfield 1.24%

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 April 2019.

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Milford KiwiSaver Plan voted People's Choice for 2nd year running

We're delighted to let you know that for the second year in a row, Milford has been chosen as New Zealand's best KiwiSaver provider for customer satifaction, after winning the 2019 Consumer NZ People's Choice Award – KiwiSaver.

Consumer NZ is New Zealand's most trusted source of independent consumer information, being recognised by them two years in a row is a great outcome for our KiwiSaver investors.

Despite Milford coming out on top again, the news wasn't as positive for everyone in the industry, with Consumer NZ finding KiwiSaver members as a whole, were less satisfied than they were a year ago. This is not surprising considering many other KiwiSaver funds delivered negative returns in 2018. We see the award as a strong endorsement of Milford's skilled active investment approach and dedication to client service.

consumer.
PEOPLE'S CHOICE
Milford KiwiSaver Plan

Make the most of your account – don't miss out on up to $521 this year

One simple way to ensure you're getting the most out of KiwiSaver is by checking you've contributed enough to get your maximum Government contribution. Each year eligible KiwiSaver members can get up to $521.43 automatically added to their account.

Every dollar counts, for every dollar you put into KiwiSaver, the government contributes 50 cents – up to a maximum of $521.43. To get the full Government contribution you need to put in at least $1,042.86 each year between 1 July and 30 June.

To find out more, see How to Maximise your KiwiSaver Government Contribution on our website.

MORNINGSTAR Awards 2019™

Morningstar Fund Manager of the Year – KiwiSaver Category, NZ

FundSource Awards 2018

FundSource 2018 KiwiSaver Manager of the Year

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