Milford Unit Trust PIE Funds 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.

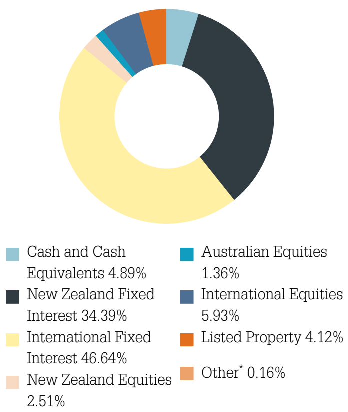
While the outlook for returns is moderate, our focus remains on security selection and backing the companies that we believe will do well over the medium term.

Milford Unit Trust PIE Funds Monthly Review as at 30 April 2019

Conservative Fund

Portfolio Manager: Paul Morris

Actual investment mix [1]



The Fund returned 0.8% in April, with positive contributions across its broad asset classes, contributing to a 1-year return of 5.9%.

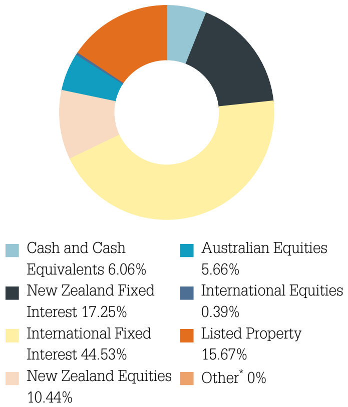
Corporate bonds, in particular global corporate bonds, continued to deliver reasonable returns, outperforming government bonds. There was a notably strong performance from the Fund's global shares. Australasian shares also contributed positively but as market interest rates stabilised our income share 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.

Diversified Income Fund

Portfolio Manager: David Lewis



The Fund returned 0.9% in April, to give a 1-year return of 8.9%. It was a solid month across the Fund's key asset classes, with gains in NZ shares, Australian shares, and in both Australasian and international bonds.

Our interest rate strategy was also supportive - the Fund has been positioned to benefit from the Reserve Bank of Australia moving to reduce interest rates. This month's weak inflation data in Australia and the resulting fall in market interest rates therefore led to gains on this position.

In our share portfolio, key positives in April were a2 Milk (+17.2%), and Unibail-Rodamco-Westfield (+4.9%). Our holdings in Australian childcare landlords Charter Hall Education Trust (+7.2%) and Arena (+5.4%) also performed well as the sector continues to benefit from more supportive government funding. Of note, the Fund increased its position in Charter Hall Education in late March following a capital raising to support the company's growth. On the negative side, Summerset fell 15.0% following a soft sales update. This is a small position at 0.3% of the Fund.

In trading activity, we added modestly to shares in Australian property, and were active in managing international bond holdings including profit taking in European bank bonds. Our strategic view remains 'moderately cautious', but in the shorter term we think many of the Fund's holdings should be supported by likely interest rate reductions in both Australia and New Zealand.

*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

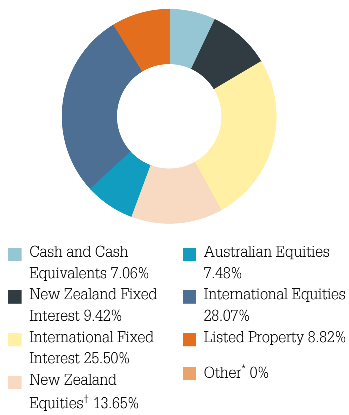
Portfolio Manager: Mark Riggall

The Fund returned 1.9% in the month, with a 1-year return of 7.0%. 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.

Actual investment mix [1]



Active Growth Fund

Portfolio Manager: Jonathan Windust

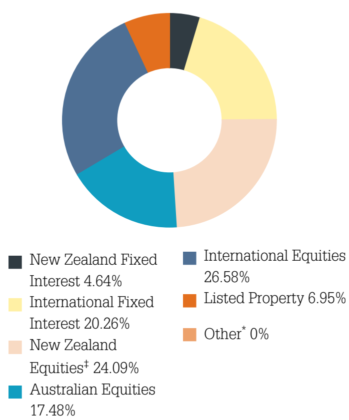
The Fund rose 2.5% in April, benefiting from the strong performance of global shares and global fixed income, as investor risk appetite improved in response to a more stable economic and investment environment.

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.

Please note this Fund is closed to new investors.



†Includes unlisted equity holdings of 0.30% ‡Includes unlisted equity holdings of 2.09% *Other includes currency derivatives used to manage foreign exchange risk.
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Australian Absolute Growth Fund

Portfolio Manager: William Curtayne & Wayne Gentle

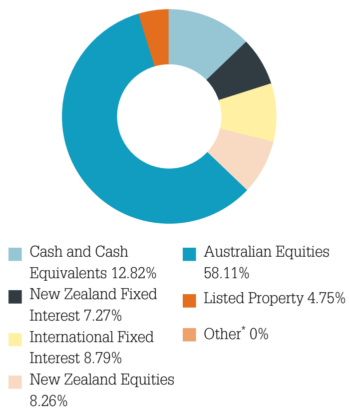
The Fund continued its positive performance in April with a 1.2% gain. Equities globally continue to recover, and the Australian market was buoyed by expectations of a rate cut by the RBA.

The a2 Milk Company was our top performer for the month with a 17.2% increase. Lower global interest rates have pushed valuations on growth stocks significantly higher including a2 Milk. We trimmed our position into the strength but retain most of our holding.

Other top performers include Treasury Wine Estate which rallied as the market became more comfortable with the outlook for their Asian division. Our bank shares – Westpac and Commonwealth Bank – were strong performers with 7.4% and 5.5% gains respectively. Again, they benefitted from lower interest rates. We have reduced our position in banks with a cautious view on their upcoming results.

Our worst performer was Evolution Mining which fell 12.8%. After strong performance over the last six months the stock took a breather with the pull back in the price of gold. Our other weaker performers were New Zealand high dividend yield companies Contact Energy (-3.3%) and Spark New Zealand (-3.4%). They both gave back some of their strong gains in recent months and Spark was impacted by the departure of its CEO. We added three new companies to the portfolio in April (Bapcor, Credit Corp Group and Cochlear) and expect more to be added over the coming months.

Actual investment mix [1]



Trans-Tasman Bond Fund

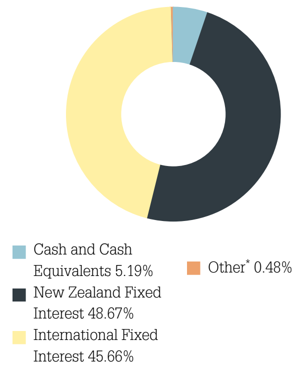
Portfolio Manager: Paul Morris

Australasian government bond prices were generally range bound in April, consolidating recent strength. The Fund delivered a return of 0.4% in the month, derived primarily from the accrued interest of its bond holdings and outperformance of its corporate bonds (relative to government bonds).

The Fund is predominantly exposed to corporate bonds. This exposure increased in April at the expense of government related and local authority bonds. Corporate bond outperformance was more pronounced outside NZ, including for example notable positive Fund contributions from QBE Insurance US dollar bonds and Ausgrid (Australian utility) Australian dollar bonds.

That said, NZ corporate bonds now appear increasingly attractive. The Fund has a higher NZ exposure relative to Australia while its offshore holdings are still low versus previous years. The Fund retains close to benchmark interest rate exposure. Markets are pricing rate cuts which if not delivered by central banks may see higher market interest rates. If market interest rates drop, we may slightly reduce interest rate exposure.

Looking forward, stable market interest rates (anchored by the possibility of rate cuts), strong investor demand and reasonable earnings should all ensure ongoing moderate returns. We reiterate however that after recent strong returns these may be lower than recent months.



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Global Corporate Bond Fund

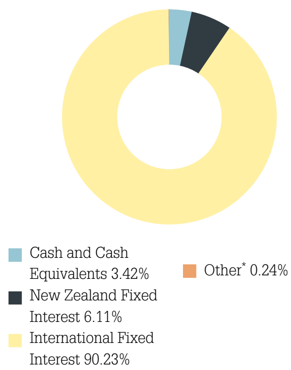
Portfolio Manager: Paul Morris

Market interest rates remain anchored by expectations central banks are willing to loosen monetary policy in response to economic growth risks and low inflation. The lower interest rate environment, combined with corporate earnings that may benefit from an extended economic cycle, have precipitated increased demand for the yield from corporate bonds, underpinning their outperformance versus government bonds. That helped the Fund return 0.7% in April, even as government bond prices were softer.

The Fund is fully invested in corporate bonds, running limited cash. That said, increasingly extended valuations in parts of the corporate bond market, elevated global debt levels and mixed forward looking economic indicators, mean it retains a lower allocation to riskier parts of the market (such as high yield bonds) than the long run neutral.

Irrespective of this, through active management of the Fund's holdings and through security and sector selection (most recently to subordinated bank and insurance company bonds), we remain optimistic for moderate future returns that will beat the benchmark but with lower risk. Note however, these may be lower than recent months. Fund interest rate exposure is still close to its neutral but we remain wary of extending as interest rate markets may consolidate until economic data justifies, or central banks deliver, rate cuts.

Actual investment mix [1]



Global Equity Fund

Portfolio Manager: Felix Fok

The Fund gained 4.6% in April continuing its strong run in 2019.

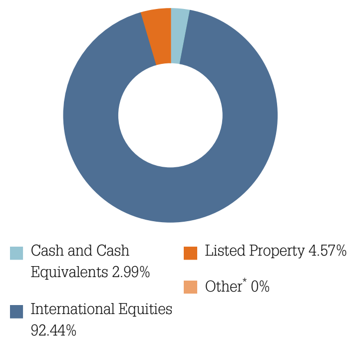
The biggest positive contributors were Microsoft (+10.7%) and Amazon.com (+8.2%). These technology-driven companies continue to compound at brisk, double-digit growth rates despite their large size. At time of writing, Microsoft's market cap is just over US $1trillion.

A notable mention was Shotspotter (+36.5%), an operator of sound-based gunshot detection systems. The shares should benefit further if its systems are more widely adopted by police forces and governments around the world.

On the flipside, fries-maker Lamb Weston (-6.5%) got crunched post results as investors fear a coming oversupply. Research suggests the hurdles to supplying the likes of McDonald's and Burger King are high and should protect the company's market position.

Managers, Wellington Strategic European (+4.9%) outperformed its European share benchmark and the global market. Europe has seen the weakest growth among major developed regions. The latest data shows signs of stabilization.

Overall, the economic picture has gradually improved. However, concerns over geopolitical risks and slowing growth will likely result in continued high market volatility. The portfolio remains focused on our key investment themes and dominant companies.



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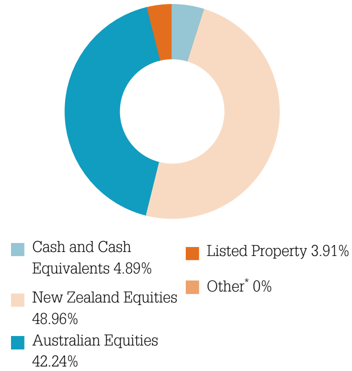
Milford Unit Trust PIE Funds Monthly Review as at 30 April 2019

Trans-Tasman Equity Fund

Portfolio Manager: Sam Trethewey & Wayne Gentle

Actual investment mix [1]



The Fund returned 2.2% in April largely due to a stellar performance by a2 Milk (+17.2%), the Fund's largest holding. This compares to the NZX 50 Gross Index which rallied 1.7% and a return of 2.4% from the ASX 200 Index. The Fund has now returned 13.0% over the past 12 months.

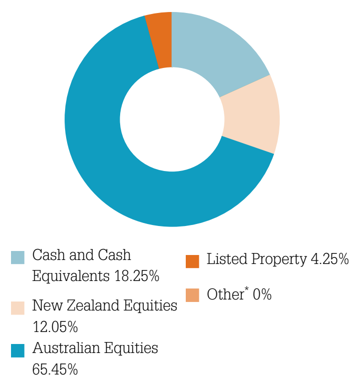
The performance of a2 Milk was largely attributable to several broker reports indicating the company has had continued strong sales momentum in the China infant formula market. Xero (+11.9%) was another standout for the Fund, benefitting from a broad tech rally across the local equity markets. Elsewhere, interest rate sensitive names like Spark (-3.4%) and Contact Energy (-3.3%) saw profit taking following a very strong rally in March.

During the month, the Fund exited around 80% of its Restaurant Brands holding at $9.45 into the partial takeover offer by Finaccess Capital. We also reduced exposure to the Australian banks ahead of the May reporting period and participated in a $175m capital raising by Ebos Group. The raising, while dilutive to near-term earnings, provides the company balance sheet to continue to make acquisitions.

Looking ahead we 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.

Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins



Domestic equity markets remained robust through April as low interest rates again provided a healthy kick to the growth end of the market. The Fund returned 3.3% for the month but lagged the ASX Small Industrials Index which rallied 6.4%.

Performance was led by companies such as Afterpay Touch (+22.1%), Credit Corp (+7.5%) and Xero (+11.9%). Afterpay Touch, the buy now pay later platform, continues to gain traction in the US. US retailers now offering the Afterpay payment option stand at over 1,900 and has been growing remarkably at around 100 new retailers per week. Credit Corp was supported by potential disruption among competitors, opening further opportunity to increase domestic market share. Xero benefited from an increased focus on growth companies in the market and anticipation into their results announcement in late May.

Laggards included gold miner Evolution Mining (-12.8%) and New Zealand high dividend yield companies such as Contact Energy (-3.3%) and Spark (-3.4%) which pared back recent strong gains. Newer exposures for the Fund tend to have exposure to offshore earnings which provide a degree of insulation from the low growth nature of the domestic economy. We will continue to search 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)	18/07/2019
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.
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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 $
Multi-Asset Funds							
Conservative Fund*	0.82%	5.95%	6.40%	—	6.53%	1.1390	248.0 M
Diversified Income Fund*	0.87%	8.92%	8.80%	10.50%	11.49%	1.7425	2,136.2 M
Balanced Fund	1.89%	7.04%	8.70%	9.56%	9.89%	2.2716	615.4 M
Active Growth Fund#	2.48%	7.88%	10.25%	10.68%	12.55%	3.6813	1,052.5 M
Australian Absolute Growth Fund	1.21%	3.07%	—	—	2.67%	1.0291	142.7 M
Cash and Fixed Income Funds							
Cash Fund	0.19%	—	—	—	—	1.0034	36.6 M
Trans-Tasman Bond Fund*^	0.38%	5.39%	4.73%	5.46%	5.59%	1.1418	450.0 M
Global Corporate Bond Fund*^	0.74%	4.14%	—	—	4.70%	1.0378	371.6 M
Equity Funds							
Global Equity Fund†	4.59%	7.72%	9.97%	8.72%	8.28%	1.6058	468.9 M
Trans-Tasman Equity Fund*	2.22%	12.99%	14.39%	12.13%	11.31%	2.8453	327.4 M
Dynamic Fund	3.31%	4.85%	10.63%	10.65%	11.77%	1.8419	224.6 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)	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

Milford Unit Trust PIE Funds Monthly Review as at 30 April 2019

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 4.02%	Contact Energy 3.08%	iShares MSCI EAFE Min Vol ETF 2.50%	Contact Energy 4.04%	CSL 5.08%	Kiwibank 2.55% 2019 12.60%
QBE 6.75% 2044 1.44%	ASB Bank 5.25% 2026 1.80%	Contact Energy 2.34%	iShares MSCI EAFE Min Vol ETF 3.31%	Commonwealth Bank 4.07%	TSB Bank CD 2019 8.46%
ANZ 2.78% 2019 1.41%	QBE 6.75% 2044 1.79%	a2 Milk Company 1.83%	Spark New Zealand 2.75%	Westpac Banking Corp 3.60%	ANZ 2.89% 2019 8.39%
ANZ Bank Float 2022 1.39%	Meridian Energy 1.73%	Spark New Zealand 1.55%	a2 Milk Company 2.49%	Transurban Group 3.57%	Westpac CMD 2019 8.22%
NZ Govt. Inflation Indexed 2% 2025 1.33%	ANZ Bank Float 2022 1.59%	Meridian Energy 1.10%	CYBG 8% 2049 1.68%	BHP Group 3.43%	Auckland Airport CD 2019 8.18%
ANZ Bank 3.03% 2024 1.32%	Argosy Property 1.50%	Vontobel Sust. EM Leaders 0.96%	Westpac 5% 2027 1.46%	Rio Tinto 3.04%	Port of Tauranga CD 2019 8.15%
NAB Float 2024 1.29%	Westpac 4.695% 2026 1.49%	Wellington Strategic Euro 0.95%	Aristocrat Leisure 1.34%	National Australia Bank 2.50%	Contact 5.8% 2019 6.91%
Investore Property 4.40% 2024 1.24%	Kiwi Property Group 1.44%	Wellington Global Health Care 0.91%	Delegat Group 1.31%	Contact Energy 2.38%	ANZ 2.91% 2019 6.38%
ASB Capital Preference Shares 1.19%	Mirvac Group 1.40%	Fisher & Paykel Healthcare 0.87%	Fisher & Paykel Healthcare 1.30%	Evolution Mining 2.28%	Fonterra CD 2019 6.28%
BNZ 3.648% 2023 1.18%	Spark New Zealand 1.36%	Financial Select SPDR 0.84%	Unibail-Rodamco-Westfield 1.24%	Bapcor 2.24%	Bank Of China 3.19% 2019 5.46%

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
ASB Bank 6.65% 2024 2.89%	BMO Float 2021 3.15%	Vontobel Sust. EM Leaders 5.35%	a2 Milk Company 9.92%	Bapcor 3.96%
NZ Govt. Inflation Indexed 2% 2025 2.75%	RBC Float 2019 2.72%	Wellington Strategic Euro 5.30%	Fisher & Paykel Healthcare 5.63%	Credit Corp Group 3.57%
ANZ Bank 3.03% 2024 2.48%	Microsoft 2.875% 2024 2.26%	Wellington Global Health Care 5.06%	Spark New Zealand 4.97%	Collins Foods 3.55%
Spark New Zealand 3.37% 2024 2.29%	AT&T 3.45% 2023 1.99%	Financial Select SPDR 3.96%	CSL 4.60%	Seven Group Holdings 3.14%
BNZ 3.648% 2023 2.23%	Apple 3.7% 2022 1.99%	Alphabet 2.41%	BHP Group 4.04%	Aristocrat Leisure 2.82%
ANZ Bank Float 2022 2.15%	Aroundtown 4.5% 2025 1.97%	Amazon 2.15%	Commonwealth Bank 3.92%	EQT Holdings 2.70%
Transpower 2.73% 2024 2.05%	Bank of America Float 2024 1.92%	Crown Castle 2.07%	Contact Energy 3.73%	Xero 2.67%
NAB Float 2024 2.04%	McDonald's 3% 2024 1.92%	Mastercard 1.93%	Auckland Airport 3.32%	IDP Education 2.62%
ING Float 2021 1.96%	Verizon Float 2023 1.90%	Microsoft Corp 1.90%	Mainfreight 3.14%	Smartgroup Corp 2.51%
Suncorp-Metway 3% 2023 1.94%	Intel 3.25% 2019 1.74%	Visa 1.88%	Westpac Banking Corp 2.62%	AUB Group 2.48%

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 $27.4 million invested across our Unit Trust PIE Funds as at the end of April 2019.

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