Milford KiwiSaver Plan Monthly Review
June 2019

Market and Economic Review

Milford's funds generally delivered flat to positive returns in May and you'd be forgiven for thinking it was a quiet month. In reality we've had a stream of news flow to digest and navigate across the range of assets we invest into.

The month began with hope of a resolution to the US-China trade war. However, the situation quickly deteriorated, and we end the month with the two sides as far apart as they have been at any point during the negotiations and tariffs on both sides set to escalate over the coming weeks.

This, and the fading momentum in global economic growth, has seen global equities reprice lower – the MSCI World Net Total Return Index was down 5.7% in May.

Over the ditch in Australia we saw the pollsters confounded yet again with a surprise victory by the incumbent Liberal-led coalition. This has likely a positive (or less negative) impact on the housing market and the banking sector so it was unsurprising to see the Australian share market outperform in May – the ASX 200 Index was up 1.7% – benefitting our significant Australian share holdings.

There was also an election in India and victory for the incumbent Modi is positive for the economy – our global team like Indian bank shares and have been adding to these in May.

Closer to home we saw the Reserve Bank of New Zealand cut interest rates by 0.25%, surprising the market and igniting interest in high dividend yielding shares. Contact Energy is Milford's biggest shareholding and the shares were up 9.8% in the month. NZ shares in general remain in demand with the NZX 50 Gross Index up 1.0% in May.

Demand for high dividend yielding shares was intensified by the global bond market which extended its year to date rally as fears of fading growth are exacerbated by the escalating trade war.

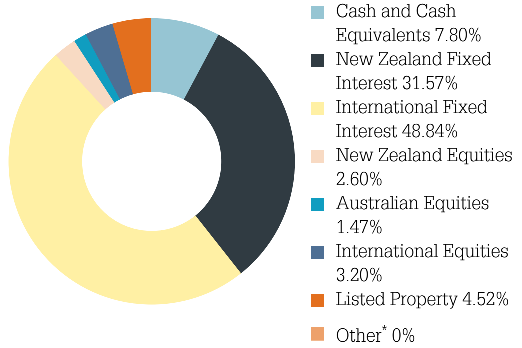
The investment team remains on the cautious side, growth is clearly slowing and risks remain. However, valuations are around average levels and falling interest rates should cushion the economy and the share market. We continue to focus on finding companies that can perform well regardless of the economic environment.

Milford KiwiSaver Plan Monthly Review as at 31 May 2019

Conservative Fund

Portfolio Manager: Paul Morris

Actual investment mix [1]



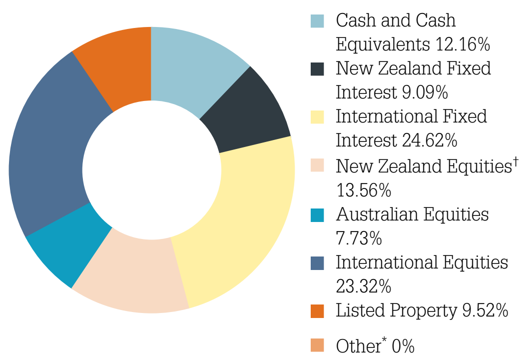
The Fund returned 0.6% in May, and is now up 5.9% over 1-year. The re-emergence of risks which had receded into the background (notably the US-China trade war and Brexit) and softer economic data has precipitated a drop in investor confidence.

Expectations have risen that central bank monetary policy action will be needed to support economic growth and the market moved to price in an even lower path for interest rates. This supported the Fund's Australasian shares (given a weighting towards income shares) and both its Australasian and global corporate bonds (albeit global bonds underperformed government bonds). The small global share allocation was however a drag on returns as global shares were weak. We modestly increased this exposure in early May but as that was through options, the negative impact was limited.

We remain wary of valuations across parts of the financial markets and are cognisant of late cycle risks which have clearly increased in May. We hold a lower allocation to shares than the long run average but rather than increasing cash we stay invested in corporate bonds, with a focus on lower risk. For now, supportive monetary policy and reasonable corporate earnings should support returns. Nevertheless, given valuations (e.g. the market is already pricing in significant rate cuts), returns are likely to be lower than in recent months.

Balanced Fund

Portfolio Manager: Mark Riggall



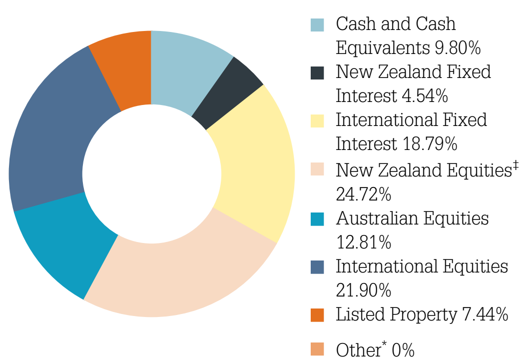
The Fund was down by 0.1% in May with 1-year returns of 5.6%. Global shares were the biggest drag as a reignited trade war caused investors to take profits on the strong year-to-date rally in shares. In contrast, Australia and New Zealand share markets performed strongly and the Fund's heavy exposure to these assets helped cushion the fall from global shares.

In Australia, the surprise win by the incumbent government reduced the risk of unfriendly business and housing policies and the share market responded well. Milford's Australian funds performed strongly in the month, notably the Dynamic Fund which was up 2.8%. Fears over the slowing pace of global growth has driven investors to seek the safe haven of government bonds, sending market-based interest rates lower. This benefited the Fund's exposure to bonds, as well as boosting the performance of high dividend yielding shares in the month.

Although we remain cautious on the outlook, the valuations of global shares look more appealing than those of local Australian and New Zealand companies and we recognise the strong outperformance of Australasian shares recently. Whilst the outlook is increasingly uncertain, underlying global economic growth remains robust and the trade war uncertainty can be removed as quickly as it was created. Therefore, the Fund is selectively adding to global shares at relatively attractive levels.

Active Growth Fund

Portfolio Manager: Jonathan Windust



The Fund rose 0.2% in May with the strong performance from NZ (+1.0%) and Australian (+1.7%) shares offset by negative returns from global shares (-5.7%). The Fund benefited from good company selection during the month with key positives including; Contact Energy (+9.8%), Vista Group (+14.5%), Aristocrat Leisure (+12.9%) and Indian Bank HDFC (+8.3%).

Aristocrat, the Australian electronic game manufacturer, rose after a strong result with earnings up 16.8%. HDFC benefited from the election win of incumbent Prime Minister Narendra Modi. Modi's win gave the market comfort that the Indian economy will continue to grow strongly. During the month the Fund added to holdings in Mirvac and BHP. Mirvac is a well-run Australian property company that should benefit from lower interest rates whilst BHP, a diversified mining company, is benefiting from strong iron ore prices.

The exposure to global and Australian shares was reduced during the month following strong performance of the Australian market and trade uncertainty in global markets. The short-term outlook for shares is supported by lower interest rates and government stimulus, however, remains uncertain with concerns over slowing growth and trade wars. Reflecting this environment, the Fund remains cautious with a lower than average weight in shares.

†Includes unlisted equity holdings of 0.30% ‡Includes unlisted equity holdings of 2.05% *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.

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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 $
Conservative Fund	0.56%	5.91%	6.06%	7.61%	9.20%	1.7708	92.9 M
Balanced Fund	-0.11%	5.63%	8.13%	9.56%	10.02%	2.3147	289.7 M
Active Growth Fund	0.21%	6.25%	9.69%	10.94%	12.59%	3.7308	1,285.1 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)	1.10%	18.04%	14.15%	15.73%	17.87%
S&P/ASX 200 Accumulation Index (AUD)	1.71%	11.08%	10.60%	7.74%	11.47%
S&P/ASX 200 Accumulation Index (NZD)	2.39%	9.45%	10.31%	7.08%	8.41%
MSCI World Index (local currency)*	-5.70%	1.10%	9.42%	7.26%	11.62%
MSCI World Index (NZD)*	-3.59%	7.33%	10.36%	11.36%	12.65%
S&P/NZX 90-Day Bank Bill Rate	0.17%	2.00%	2.07%	2.57%	2.61%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	1.44%	6.50%	3.12%	3.60%	3.48%
S&P/NZX NZ Government Bond Index	1.22%	7.82%	4.15%	5.53%	4.25%

*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 3.72%	Contact Energy 2.26%	Contact Energy 4.35%
NAB Float 2029 1.80%	a2 Milk Company 1.73%	iShares MSCI EAFE Min Vol ETF 3.29%
Vector 3.45% 2025 1.72%	Spark New Zealand 1.54%	Spark New Zealand 2.85%
NZ Govt. Inflation Indexed 2% 2025 1.60%	iShares MSCI EAFE Min Vol ETF 1.39%	a2 Milk Company 2.50%
QBE 6.75% 2044 1.40%	Meridian Energy 1.05%	CYBG 8% 2049 1.60%
ANZ 2.78% 2019 1.32%	Wellington Strategic Euro 0.92%	Westpac 5% 2027 1.45%
ANZ Bank 3.03% 2024 1.22%	Vontobel Sust. EM Leaders 0.91%	Alphabet 1.31%
Investore Property 4.40% 2024 1.17%	Wellington Global Health Care 0.88%	Delegat Group 1.29%
IAG Float 2045 1.10%	Fisher & Paykel Healthcare 0.81%	NAB Float 2029 1.26%
BNZ 3.648% 2023 1.07%	Kiwi Property Group 0.80%	Fisher & Paykel Healthcare 1.26%

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 May 2019.

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Meet your Investment Team - Jonathan Windust

Portfolio Manager for the Milford KiwiSaver Active Growth Fund

Jonathan has been with Milford since 2008 and assumed responsibility for the Active Growth Fund in April 2017. He is responsible for the mix of assets to include within the portfolio.

Jonathan has a wide range of investment experience across financial markets both in New Zealand and internationally. Prior to joining Milford, Jonathan worked in London where he was Portfolio Manager for a pension scheme which had assets in excess of NZ$25 billion.

As a Portfolio Manager, what does your typical day look like?

Typically, it involves waking up and seeing what has happened overnight across markets and economic news (or Donald Trump tweets) that may impact our view of the global market or economic environment. Once in the office it's reading analyst's company research, doing my own company research (meeting management teams, crunching numbers, reading company reports) and discussing the latest ideas and data with the rest of the Milford investment team. There is typically one formal investment team meeting a day covering either strategy, NZ, Australian or global shares or fixed income. The day involves a lot of thinking, trying to decide what will happen in markets next and where we should focus the Fund's holdings.

How do you decide which companies to invest in?

We are looking to invest in companies that will generate an attractive return relative to their risk. Returns may come from companies paying dividends, growing their earnings and/or changes in a company's value. Typically, we are trying to find companies that have good growth prospects, strong competitive positions, exceptional management teams and are undervalued. The challenge is that the best companies often have the highest valuations – but not always.

How is the Milford KiwiSaver Active Growth Fund different from other KiwiSaver Growth Funds?

One of the biggest differences is our approach. Many other fund managers adopt more of a passive buy and hold approach with the objective of trying to match or marginally beat market returns. The Active Growth Fund's approach is to actively invest and move between markets and companies to achieve an appropriate return for the risk taken. If we can't find attractive opportunities we will look for alternatives in different markets or geographies or reduce risk by holding more cash. This risk management means we may not always beat market returns in the short term; however, over the long term our approach has proven successful by outperforming peers, with lower levels of risk.

Which KiwiSaver Fund are you in?

The Milford KiwiSaver Active Growth Fund of course! Investors should take comfort that we are invested with them in our funds. This ensures that we remain focussed, motivated and importantly are only taking risks with their money when we think that these will be rewarded over time.

What is the best part of your job?

The challenge, the people I get to deal with and the satisfaction of delivering good results for our KiwiSaver members.

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