MILFORD

Milford Investment Funds Monthly Review
October 2019

Market and Economic Review

For much of September geopolitical uncertainty was front of mind for investors and markets. Usually this results in significant volatility, however last month markets remained surprisingly resilient in the face of geopolitical issues and the accompanying barrage of headlines. Most of Milford's funds ended the month with a moderately positive return.

In September investors were occupied with a number of significant, market moving events:

- Attacks on Saudi Arabian oil production facilities, which temporarily sent oil prices almost 15% higher
- Hopes for US-China trade progress rose and fell through the month numerous times on running commentary from both nations
- Pro-democracy protesters in Hong Kong continued to agitate for change, increasing risks for the local economy
- In the UK, Boris Johnson attempted to circumvent parliament to deliver Brexit, only for the High Court to rule his prorogue illegal, ensuring the pathway ahead for the UK remained unclear
- In the US, the Democrat Party began moves to impeach President Trump over allegations he coerced the President of the Ukraine to investigate a potential rival for the 2020 election.

Despite this significant background noise, by month end global share markets (MSCI World Net Total Return Index) were up by 2.3%, New Zealand's NZX 50 Gross Index was up 1.6% and the Australian ASX 200 Index up by 1.8%.

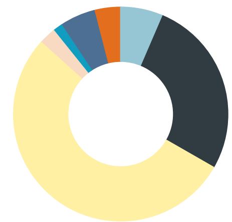
The global economy continues to slow, driven by a business sector faced with the same uncertainties as investors. Interest rates also remain low and central banks are doing their utmost to support local economies – the US had a 0.25% rate cut and the European Central Bank delivered a sweeping package of monetary easing during the month. However, until the fog of uncertainty is lifted the broad outlook for share markets is likely to be muted. Nonetheless, an outlook of slow economic growth, coupled with low interest rates still provides a reasonable investment backdrop.

With an uncertain macro environment, our attention remains focussed on stock selection within the funds. October heralds quarterly earnings releases from US companies, which will be instructive in detailing how the trade war has impacted company profits. More importantly, the outlook for growth in profits will be key in driving investor appetite for shares going forward.

Conservative Fund

Portfolio Manager: Paul Morris

Actual investment mix [1]



- Cash and Cash Equivalents 6.46%
- New Zealand Fixed Interest 26.84%
- International Fixed Interest 53.39%
- New Zealand Equities 2.56%
- Australian Equities 1.42%
- International Equities 5.32%
- Listed Property 4.01%
- Other* 0%

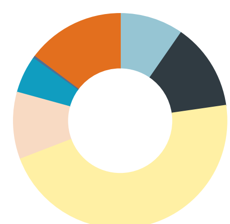
After recent strength, September saw the moderation of returns we had been anticipating and the Fund returned just 0.2%. It is however up 7.8% over the past year. This moderation was in large part due to a rise in market interest rates as the inexorable rise in global bond prices took a breather. That was a headwind for the Fund's fixed interest allocation. However through active management of this exposure, both global and Australasian bonds delivered a largely flat return in the month, including some notable outperformance from the European bank bond holdings.

The performance of the Fund's share allocation was mixed. Its Australasian shares enjoyed a strong month, including a notable performance from Collins Foods (+16.0%) following its inclusion in the ASX 200 Index. In contrast, the Fund's global shares suffered a loss and underperformed the broader market, albeit after a period of strong outperformance.

Looking forward, we remain confident supportive monetary policy combined with active management should deliver a moderate return. Nevertheless, given the Fund's conservative risk profile and the ongoing uncertain economic backdrop we believe it remains prudent to retain the Fund's slightly cautious positioning. This means less shares and more corporate bonds, relative to the long run neutral, with a lower exposure to lower rated/high yield corporate bonds.

Diversified Income Fund

Portfolio Manager: David Lewis



- Cash and Cash Equivalents 9.68%
- New Zealand Fixed Interest 13.05%
- International Fixed Interest 46.44%
- New Zealand Equities 10.09%
- Australian Equities 5.60%
- International Equities 0.35%
- Listed Property 14.79%
- Other* 0%

The Fund rose by 0.7% in September and is up by 11.7% in the past year. Returns were mixed across the key asset classes for the Fund this month, with modest declines in global bond markets contrasting gains in NZ and Australian shares. Against this backdrop we were pleased with the modest return the Fund generated.

Key performers in our share portfolio included Collins Foods (+16.0%), which rose following its inclusion into the ASX 200 Index, in turn reflecting strong ongoing performance for its main restaurant business (KFC) in Australia. Unibail-Rodamco-Westfield, which owns shopping malls globally, rose 12.3%, rebounding (alongside many other 'value' stocks globally) after weak performance over the past couple of quarters. NZ electricity companies including Meridian (+7.8%) were volatile during the month but we think are likely to remain reasonably well supported given stable earnings and attractive dividend yields.

On the negative side, Australian property owner and fund manager Charter Hall Group (-7.9%) fell following early signs of weaker demand in the Australian office market. Within the bond portfolio, the Fund's exposures to European banks performed well this month (up 1-2%) as the European Central Bank restarted a quantitative easing program. Looking ahead, our strategic view remains "moderately cautious" reflected in a higher level of cash (10%) and lower allocation to shares (32%) than we expect to hold over the long term.

Finally, as we highlighted last month, a larger portion of the Fund (now 21%) is managed by Paul Morris, via the Trans-Tasman Bond Fund and Global Corporate Bond Fund. Reflecting this, Paul is now Co-manager of the Diversified Income Fund (previously Jonathan Windust). Jonathan will continue to be closely involved with the Fund, as for other Funds, in his role as Deputy Chief Investment Officer.

*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 Investment Funds Monthly Review as at 30 September 2019

Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 0.7% in September, bringing the 1-year return to 8.4%. It was a month to ignore the headlines as share markets put in a flat to positive return despite the barrage of news flow on trade, Trump impeachment, Brexit and oil price spikes.

Market interest rates were higher during the month as global government bonds sold off after running too far in August. Despite this, the bond holdings delivered a largely flat return for the month as we managed our exposures around this move. The mild increase in market interest rates was not enough to prevent many share markets from making modest gains. These were largely uniform across the regions.

Looking ahead, the Fund remains fully invested as the backdrop of low growth coupled with low interest rates remains reasonably favourable for investing. Returns are less likely to come from broad gains in asset prices going forward. Instead, selective positioning in stocks and sectors will likely yield better results, something the Fund is set up to deliver with investments into Milford's range of funds. Year to date returns for bonds and shares have been strong. Going forward this pace of returns is likely to moderate, but through active management and security selection we should be able to deliver a reasonable return on investment.

Actual investment mix [1]

- Cash and Cash Equivalents 12.53%
- New Zealand Fixed Interest 6.93%
- International Fixed Interest 25.34%
- New Zealand Equities† 12.79%
- Australian Equities 8.12%
- International Equities 25.33%
- Listed Property 8.96%
- Other* 0%

Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund rose 0.9% in September driven by good returns from share market indices; New Zealand (+1.6%), Australia (+1.8%) and global (+2.3%). Within the share markets there were mixed company performances with many of this year's strong performers reversing some of their gains.

Key company performers during the month included retirement villages Summerset (+9.6%) and Arvida (+11.7%) which benefited from optimism that rate cuts will help support housing markets. Summerset announced the acquisition of land for its first village in Australia which it believes provides an attractive growth opportunity.

During the month the Fund added to a2 milk. The share price fell after its recent result which disappointed analysts as the company sacrifices margin to pursue what it believes is a large revenue opportunity. Whilst not without risk, we believe a2 is attractively valued relative to its growth prospects.

The outlook for shares remains supported by low rates, reasonable dividends and positive (albeit slowing economic growth). Key headwinds are relatively high valuations, slowing company earnings growth and political uncertainty. The strategy of the Fund is to remain active to take advantage of market volatility to purchase companies with strong return prospects.

Please note this Fund is closed to new investors.

- Cash and Cash Equivalents 8.82%
- New Zealand Fixed Interest 2.33%
- International Fixed Interest 16.74%
- New Zealand Equities‡ 24.02%
- Australian Equities 13.40%
- International Equities 26.43%
- Listed Property 8.26%
- Other* 0%

†Includes unlisted equity holdings of 0.29% ‡Includes unlisted equity holdings of 2.07% *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

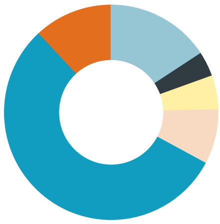
Portfolio Manager: William Curtayne & Wayne Gentle

The Fund returned 1.2% for September. Government bond yields rose earlier in the month which set off an equity market rotation out of sectors that have benefitted from lower bond yields, such as income and growth stocks, and into cyclicals and value stocks which rallied. The Fund has a slight bias to income generating shares but maintains a diversified mix of investments, so our performance was not significantly impacted by this rotation.

Earlier in the month oil prices rallied strongly after an attack on Saudi Arabia's Aramco facilities. We were fortunate to buy some oil companies prior to this event on a view that oil companies were attractively valued and would perform very well if China and the US manage to reach a trade deal. We also purchased more after the attack and have maintained our position as we await further news on Aramco supply disruptions and trade negotiations.

Collins Foods was one of the top contributors for the month, largely due to passive index buying as it was included in the ASX 200 Index, hence we took the opportunity to reduce our holding as its share price approached fair value. NAB also contributed strongly as investors became more positive on the Australian housing market and outlook for bank lending growth. Next month we expect updates from many of our companies at their annual shareholder meetings.

Actual investment mix [1]



Cash and Cash Equivalents 15.79%
New Zealand Fixed Interest 3.73%
International Fixed Interest 5.11%
New Zealand Equities 8.24%
Australian Equities 55.14%
Listed Property 11.88%
Other* 0.11%

Trans-Tasman Bond Fund

Portfolio Manager: Paul Morris

Irrespective of ongoing expectations for further cash rate cuts, Australasian market interest rates moved higher in September. This may be in part due to neither the Australian nor New Zealand central bank cutting their cash rates in September, however as that was generally anticipated it was more likely a case of following a move higher in offshore market interest rates (although US and European benchmark rates were cut).

The Fund's return was partially protected from this move as we reduced interest rate exposure to less than its benchmark/neutral, albeit this limited the Fund to a flat return for the month (slightly more than the benchmark). The Fund remains primarily exposed to corporate bonds which outperformed government/local authority bonds over the month. That was a benefit for performance relative to the benchmark which has a larger exposure to the latter, however, improved valuations meant we subsequently increased government/local authority exposure (although this is still below benchmark).

Considering the rise in market interest rates and our expectation for further rate cuts we have increased interest rate exposure back to neutral. Elevated valuations and an uncertain economic backdrop mean exposure is to lower risk bonds, with holdings of offshore bonds of Australasian issuers below long run neutral. Looking forward, supportive monetary policy should underpin returns but they may be lower than those seen over the last year.

Cash and Cash Equivalents 6.28%
New Zealand Fixed Interest 48.62%
International Fixed Interest 45.10%
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.

Global Corporate Bond Fund

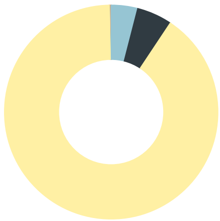
Portfolio Manager: Paul Morris

The inexorable rise in global bond prices took a breather in September as market interest rates rose. This was irrespective of US and European rate cuts (the European Central Bank also restarted its bond buying). The negative return impact from higher market interest rates was partially mitigated by a reduction in the Fund's interest rate exposure, but it still limited September's return to just 0.03% (albeit 0.15% more than the benchmark).

Demand for the extra interest from corporate bonds over government bonds, in what is likely to remain a low interest rate environment, is supportive but in September was partially offset by high new bond supply. Near term, as market interest rates settle and new bond issuance slows, corporate bonds should outperform governments, supporting moderate Fund returns. We reiterate that these are likely to be lower than over the past year.

We remain wary of myriad known risks; geopolitical tensions (tariff wars), a further slowdown in company earnings growth in a weakening economic backdrop and generally still elevated company leverage (debt levels) globally. Therefore we retain our preference for investment grade rated bonds over below investment grade (high yield). Market interest rates are now closer to fair value so we have added back some interest rate exposure, but this is less than its benchmark/neutral because markets are already pricing significantly lower interest rates.

Actual investment mix [1]



Cash Fund

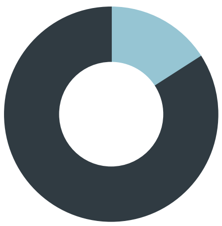
Portfolio Manager: Paul Morris

In September the Fund continued to successfully deliver on its objective to return in excess of the Reserve Bank of New Zealand (RBNZ) Official Cash Rate (OCR) after fees. It returned 0.14% in the month which was 0.06% above its benchmark.

During September, the RBNZ left the OCR unchanged at 1.0%, but the market continues to price an expectation that slowing economic growth and low inflation will mean further cuts delivered in time. Rate cuts are anticipated for the next RBNZ meeting in November when the RBNZ will also release its Monetary Policy Statement, which includes its updated economic forecasts.

The portfolio management of the Fund remains focussed on maintaining its low risk strategy which is built on a diversified portfolio of cash, short-dated debt securities and term deposits, so as to protect capital.

We believe this could be a tax efficient (as a PIE vehicle), liquid (meaning investors have access to funds on request unlike term deposits) and low risk alternative to bank term deposits.



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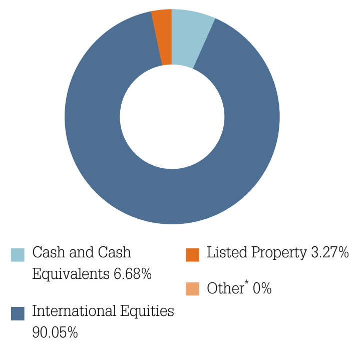
Global Equity Fund

Portfolio Manager: Felix Fok

Actual investment mix [1]



The Fund gained 0.5% in September as global share markets wrestled with weakness in global economic activity and the prospects of a trade deal between US and China.

Positive contributors included leading Indian bank HDFC Bank (+5.8%). The Modi government decided to cut effective taxes for companies from 35% to 25% to stimulate the wider economy. HDFC Bank has been profitable and growing, and it will fully benefit from the reduction.

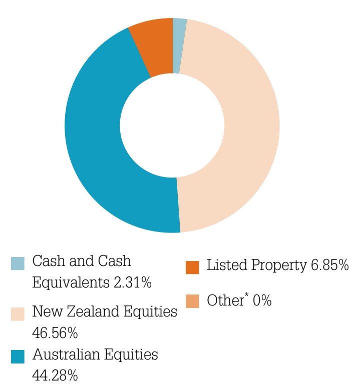
Semiconductor manufacturing equipment maker ASML (+12.4%) rallied as investors took an incrementally positive view on cyclicals and European shares on US-China trade deal hopes. We saw ASML while on the road in Asia and Europe in September and sensed the opportunity is both cyclical and long-term. Detractors from performance included Starbucks (-8.4%). The shares have done well and came under profit taking. The daily consumption nature of coffee has defensive characteristics. Starbucks is still up 39.2% this year.

Amongst Managers, Wellington Strategic European provided the most uplift as European shares generally outperformed US shares last month. Wellington Global Healthcare fell on rotation out of defensive sectors as well as US politics relating to healthcare costs.

Overall, the economic backdrop remains one of slowing economic growth and elevated geopolitical tensions, offset by lower interest rates. In this environment, volatility is likely to stay elevated. The portfolio remains focused on our key investment themes and dominant companies.

Trans-Tasman Equity Fund

Portfolio Manager: Sam Trethewey & Wayne Gentle



The Fund made a positive gain of 1.4% in September. This compares to the NZX 50 Gross Index return of 1.6% and the ASX 200 Index return of 1.8%.

Key winners for the Fund included payment exposure Afterpay Touch Group (+15.8%) and quick service restaurant operator Collins Foods (+16.0%). Compared to the benchmark, our exposure to a2 Milk (-8.2%) and Fletcher Building (+16.0%) hurt while avoiding Z Energy (-11.7%) was a key positive contributor. a2 Milk fell after it held an inaugural investor day in Shanghai. The company emphasised a significant growth opportunity in China and the strength of their brand, however gave no firm targets or figures for investors to measure them by. We believe investors are seeking hard evidence to give it confidence about a2's strategy. Fletcher Building commenced a buyback program and saw support from the rotation into value stocks early in the month. Z Energy downgraded its earnings outlook on the back of increasing retail competition.

Over the month the Fund participated in a capital raising by Goodman Property Trust and added to retirement village operator Summerset after a positive result in August. Profit was taken on our holding in Afterpay Touch and Xero into strength and we reduced Freightways on a subdued growth outlook.

The August reporting season confirmed our view that stock selection will be increasingly important to generating attractive returns in coming months. The profitability of companies with weak economic moats is being tested in the current softer economic environment. We have concentrated the Fund in positions where we have conviction around the company's competitive position and medium-term growth prospects.

*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.

Dynamic Fund

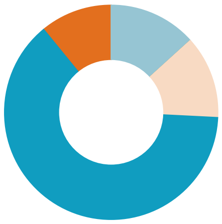
Portfolio Manager: William Curtayne & Michael Higgins

The Fund returned 1.6% for September, rounding out a strong 18.5% return for the half. Following a short-lived sell-off in August, confidence reappeared with the small cap index rising 3.3% for the month.

Winners for the month comprised a broad mix of our core stalwart positions including KFC retailer Collins Foods (+16.0%), retirement village operator Lifestyle Communities (+10.6%) and fintech and payments provider EML Payments (+11.4%). Collins was a beneficiary of strong passive buying as it was included in the ASX 200 Index. Given the atypical stock demand, we took the opportunity to take profits as its share price approached fair value. Detractors for the month included a2 Milk (-8.2%) which continues to sell-off on concerns around the quantum of investment required to retain top line growth and gold producer Evolution Mining (-12.5%).

While our recent performance has been strong, the market remains volatile with powerful swings from value and momentum occurring frequently. From a portfolio management perspective, we are holding more companies at smaller weights than usually would be the case. This seems prudent given global uncertainties and a lack of direction from the market. Despite the uncertainty, we continue to focus on companies with excellent multi-year growth outlooks and those we consider good value with resilience through the cycle.

Actual investment mix [1]



Upcoming Distributions	Target	Payment Date
Conservative Fund	0.5 cents (Quarterly)	17/10/2019
Diversified Income Fund	1.1 cents (Quarterly)	20/11/2019
Trans-Tasman Bond Fund	0.45 cents (Quarterly)	18/12/2019
Global Corporate Bond Fund	0.45 cents (Quarterly)	18/12/2019
Trans-Tasman Equity Fund	1.5 cents (Biannually)	19/03/2020

*Other includes currency derivatives used to manage foreign exchange risk.

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Milford Investment Funds Monthly Review as at 30 September 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*	0.20%	7.84%	6.64%	—	6.97%	1.1810	358.2 M
Diversified Income Fund*	0.72%	11.71%	9.44%	10.58%	11.69%	1.8181	2,286.0 M
Balanced Fund	0.66%	8.43%	9.32%	9.61%	10.12%	2.4064	712.5 M
Active Growth Fund#	0.93%	8.13%	10.50%	11.34%	12.71%	3.9285	1,133.2 M
Australian Absolute Growth Fund	1.20%	8.74%	—	—	9.46%	1.1508	167.4 M
Cash and Fixed Income Funds							
Trans-Tasman Bond Fund*^	0.00%	7.54%	5.03%	5.58%	5.89%	1.1754	602.6 M
Global Corporate Bond Fund*^	0.03%	7.42%	—	—	5.46%	1.0663	604.3 M
Cash Fund	0.14%	—	—	—	—	1.0116	44.9 M
Equity Funds							
Global Equity Fund†	0.50%	6.09%	10.70%	8.17%	8.40%	1.6707	577.6 M
Trans-Tasman Equity Fund*	1.40%	13.96%	15.48%	13.86%	11.75%	3.0981	422.0 M
Dynamic Fund	1.56%	7.66%	12.26%	12.79%	13.46%	2.1106	265.6 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)	1.79%	17.96%	15.30%	17.12%	17.54%
S&P/ASX 200 Accumulation Index (AUD)	1.84%	12.47%	11.88%	9.50%	10.97%
S&P/ASX 200 Accumulation Index (NZD)	2.59%	10.83%	12.68%	8.57%	8.59%
MSCI World Index (local currency)*	2.34%	2.90%	10.86%	8.35%	11.24%
MSCI World Index (NZD)*	2.72%	7.66%	15.79%	11.95%	14.16%
S&P/NZX 90-Day Bank Bill Rate	0.10%	1.88%	1.98%	2.44%	2.57%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	-0.46%	10.65%	3.65%	4.12%	3.80%
S&P/NZX NZ Government Bond Index	-0.07%	9.63%	4.85%	6.02%	4.71%

*With net dividends reinvested

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

Multi-Asset Funds

Conservative Fund	Diversified Income Fund	Balanced Fund	Active Growth Fund	Australian Absolute Growth Fund
Societe Generale 4.875% 2024 1.72%	Contact Energy 2.37%	Contact Energy 2.15%	Contact Energy 4.46%	National Australia Bank 5.44%
Bank Of China 3% 2020 1.44%	Spark New Zealand 2.22%	Spark New Zealand 1.83%	a2 Milk Company 3.45%	Transurban Group 4.67%
QBE 6.75% 2044 1.43%	Meridian Energy 1.77%	a2 Milk Company 1.59%	Spark New Zealand 3.38%	Commonwealth Bank 4.51%
John Deere 1.75% 2024 1.35%	QBE 6.75% 2044 1.77%	Meridian Energy 1.21%	iShares MSCI EAFE Min Vol ETF 3.15%	BHP Group 4.21%
Vector 3.45% 2025 1.35%	Mirvac Group 1.46%	Financial Select SPDR 1.19%	Visa 1.64%	Woodside Petroleum 4.11%
ANZ Bank 3.03% 2024 1.30%	Transurban Group 1.30%	Transurban Group 0.99%	Transurban Group 1.47%	CSL 2.98%
Westpac 2.22% 2024 1.23%	Charter Hall Education Trust 1.24%	Wellington Strategic Euro 0.89%	HCA Holdings 1.44%	Contact Energy 2.88%
ANZ Bank Float 2024 1.22%	Charter Hall Long Wale REIT 1.23%	Vontobel Sust. EM Leaders 0.88%	CYBG 8% 2049 1.41%	a2 Milk Company 2.43%
JPMorgan 5% 2024 1.21%	Bank of America 3.458% 2025 1.19%	Wellington Global Health Care 0.84%	Microsoft Corp 1.35%	Westpac Banking Corp 2.42%
ING Group 1.45% 2024 1.18%	JPMorgan 1.09% 2027 1.16%	QBE 6.75% 2044 0.84%	Alphabet 1.29%	Macquarie Group 2.38%

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).

Cash and Fixed Income Funds

Trans-Tasman Bond Fund	Global Corporate Bond Fund	Cash Fund
ANZ Bank 3.03% 2024 2.80%	AT&T 3.45% 2023 2.32%	Auckland Airport CD 2019 7.55%
ANZ Bank Float 2024 2.50%	John Deere 1.75% 2024 2.22%	Kiwibank 1.85% 2019 6.91%
Westpac 2.22% 2024 2.31%	Sprint Spectrum 4.738% 2025 2.16%	TSB Bank CD 2019 6.89%
NZLGFA 1.5% 2029 2.28%	Kerry Group 0.625% 2029 2.16%	Westpac CMD 2019 6.76%
Housing NZ 3.36% 2025 2.24%	Dell Float 2023 2.11%	NZLGFA CD 2019 6.68%
John Deere 1.75% 2024 2.23%	Seagate 4.75% 2025 2.01%	Port of Tauranga CD 2019 6.67%
ING Group 1.45% 2024 2.23%	McDonald's 3% 2024 1.96%	Mercury CD 2019 6.67%
ASB Bank 1.83% 2024 2.08%	Downer Group 4.50% 2022 1.85%	SBS Bank CD 2019 6.66%
NZGB 3% 2029 1.97%	QBE 6.75% 2044 1.76%	ANZ 2.14% 2019 6.02%
Spark New Zealand 3.37% 2024 1.78%	Societe Generale 4.875% 2024 1.67%	Transpower CD 2019 5.33%

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).

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

Equity Funds

Global Equity Fund	Trans-Tasman Equity Fund	Dynamic Fund
Financial Select SPDR 4.87%	a2 Milk Company 7.49%	Credit Corp Group 3.79%
Wellington Strategic Euro 4.53%	Fisher & Paykel Healthcare 4.38%	Bapcor 3.46%
Vontobel Sust. EM Leaders 4.43%	CSL 4.24%	Australian Finance Group 3.30%
Wellington Global Health Care 4.26%	Contact Energy 3.99%	Wellcom Group 3.14%
Euro Stoxx 50 ETF SPDR 2.97%	Spark New Zealand 3.98%	Contact Energy 2.92%
Consumer Discretionary Select SPDR 2.57%	Mainfreight 3.39%	EML Payments 2.86%
Energy Select SPDR 2.32%	Meridian Energy 3.22%	IDP Education 2.79%
Alphabet 2.19%	Auckland Airport 3.16%	EQT Holdings 2.70%
Microsoft Corp 2.14%	Transurban Group 3.04%	Charter Hall Group 2.27%
CME Group 2.05%	Commonwealth Bank 2.95%	a2 Milk Company 2.22%

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 $27.3 million invested across our Unit Trust PIE Funds as at the end of September 2019.

Investment Highlight - Collins Foods

William Curtayne
Portfolio Manager

Collins Foods is the owner and operator of KFC franchises in Australia and Europe and has been a core ASX holding for many years. It first listed in 2011 at $2.50 a share but a series of earnings disappointments saw the shares fall to a low of $1 in 2012. Earnings margins were being impacted, by rising labour and power costs, in a competitive fast food environment that made offsetting price rises difficult. Milford did not participate in the Initial Public Offering (IPO), but we began to have a closer look at the business after this large fall in the share price.

Many of our investors will remember the very strong returns that Restaurant Brands delivered for our Funds since purchase of the business at 50 cents a share in 2009. At the time the New Zealand economy was weak, but KFC stores still performed well as it was relatively inexpensive compared to other dining options. Restaurant Brands were also refurbishing their stores to a more modern look which was generating fantastic returns on capital. As a result, Restaurant Brands performed very well over the next five years.

We saw a similar scenario emerging for Collins Foods in 2012 and purchased our first shares at $1.65. As with Restaurant Brands, the store refurbishments were a success and the share price continued to recover.

A number of other positive developments occurred for Collins Foods over the following years:

- Cost pressures and competition in the Australian fast food industry abated
- The acquisition of the Western Australian franchise network in 2013 for an attractive price
- Closing down its poor returning Sizzler franchise
- KFC put through minimal price increases for many years making their food more affordable than competitors such as McDonalds
- Introduction of delivery service through Deliveroo.

Collins Foods recently won the rights to rollout out Taco Bell stores in Australia with an initial target of 50 stores in three years. This is an exciting growth option for the business and the first Queensland stores are performing very well. Despite this we need to see the strong performance sustained for a number of years before we deem them successful.

Collins Foods shares are currently trading at $10 and is a good example of how our experience in New Zealand helped us to be early on a great investment opportunity in the Australian market. KFC food continues to deliver great value for its customers which places Collins Foods in a favourable position to pick up market share or increase pricing to drive profit growth. We note Collins Foods' increasingly stretched valuation. The shares now trade at 22 times next year's earnings compared to 7 times earnings at our original purchase. This may not be a problem immediately, but any earnings disappointments in the future will see a larger share price correction given this valuation.

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