MILFORD

Milford Investment Funds Monthly Review
November 2019

Market and Economic Review

October delivered plenty of news to digest as we assess the investment outlook.

The US-China trade war continues to dominate the investment landscape - slowing economic growth via a weaker global manufacturing sector. Thus far the US has been relatively immune, but last month the widely followed US ISM survey of manufacturing business conditions posted the worst reading since the GFC. However, fears of imminent recession were mitigated by several other announcements:

- The US and China appear close to signing 'phase 1' of a trade deal, giving hope that at the very least, trade tensions are receding and not increasing
- Brexit finally yielded some positive news with signs of progress towards a UK-EU deal. While the final outcome is far from certain, investors appear relieved that the worst case 'no-deal Brexit' is less likely to occur
- US company profits reported in the month were much better than investors expected
- The US federal reserve cut interest rates for a 3rd time this year, providing insurance against further economic slowdown

These positives were enough to lift global share markets 1.9% over the month (MSCI World Net TR Index). In contrast, local share markets were weaker, with the NZX 50 Gross Index and ASX 200 Index down 1.3% and 0.4% respectively.

The NZ market was heavily impacted by the performance of the electricity companies, which fell sharply on the announcement that Rio Tinto are reviewing the viability of the Tiwai Point aluminium smelter. We see continued opportunities for positive returns from these companies in the longer term, but we have reduced some of our exposure to reflect the short-term uncertainty – locking in the strong returns delivered by the sector over the past year.

Despite this, our diversified Funds delivered positive returns for the month, illustrating the importance of diversification and good stock selection in these choppy markets.

Looking ahead, although some of the risks have receded, we are cognisant that they can rise again very quickly. The global economy remains precarious and we are looking for signs that the global interest rate cuts so far this year have started to stabilise the growth outlook. We remain invested; but with global share markets close to record highs we continue to expect that future returns will be more moderate.

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Conservative Fund

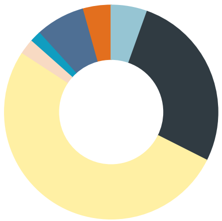
Portfolio Manager: Paul Morris

The Fund faced a headwind of mixed performance across both its bonds and shares but still delivered a modest return of 0.2% in the month. This represents a continuation of the recent moderation in returns we have been signalling but the Fund is still up a strong 8.7% over the past year.

October saw slightly negative returns from the Fund's Australasian bonds but a small positive return from its global bonds. Market interest rates have risen on diminished expectations for near term cash rate cuts here and offshore. However, the Fund’s corporate bond focus outperformed more pronounced weakness in government bonds. This outperformance was underpinned by an improving risk backdrop which also helped global shares, an exposure we have increased via buying call options on the S&P500 Index (for an upfront cost the Fund gets some benefit from a rise of the S&P500 but without the downside risk).

After recent strength, the Fund's Australasian share exposure was weaker, including a notable fall in NZ electricity shares related to news that the Tiwai Point aluminium smelter could potentially be closed. This was a small Fund exposure and was reduced due to the increased uncertainty. Looking forward, supportive monetary policy combined with recent increased confidence in the economic/company earnings outlook should help deliver moderate Fund returns.

Actual investment mix [1]



- Cash and Cash Equivalents 5.49%
- New Zealand Fixed Interest 26.93%
- International Fixed Interest 51.76%
- New Zealand Equities 2.34%
- Australian Equities 1.70%
- International Equities 7.42%
- Listed Property 4.36%
- Other* 0%

Diversified Income Fund

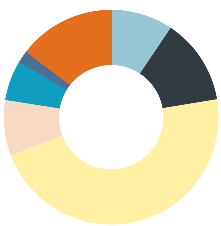
Portfolio Manager: David Lewis

The Fund was broadly flat in October (+0.1%) and is up by 13.4% in the past year. We feel that this was a reasonable result for the month given a backdrop of declines in NZ shares, and modest declines in global bonds and Australian shares.

The biggest impact on performance in October came from the NZ electricity sector, with declines in our key holdings Contact Energy (-13.6%) and Meridian Energy (-11.5%) following news that the Tiwai Point aluminium smelter could potentially be closed. We reduced these positions after the news, with the Fund's sector exposure now at 3.1% compared to 4.7% earlier in the month. Positively, the Fund had taken some profits in Contact earlier this year (2.2% weight in mid-October, from 3.4% earlier in the year).

On the positive side, Sydney Airport (+9.3%) reported improved passenger volumes, while several holdings in property companies made modest gains (Aventus, Mirvac, Arena).

In fixed income, the Fund was active in new issues, investing in Australian dollar bonds from Verizon (US telecom), Coles (Australian supermarket), and Origin Energy (Australian utility). We also made changes to our holdings in European bank bonds following a research visit. Looking ahead, our strategic view remains "moderately cautious" reflected in a higher level of cash (9%) and lower allocation to shares (31%) than we expect to hold over the long term.



- Cash and Cash Equivalents 9.45%
- New Zealand Fixed Interest 12.95%
- International Fixed Interest 46.75%
- New Zealand Equities 8.33%
- Australian Equities 6.04%
- International Equities 1.80%
- Listed Property 14.68%
- Other* 0%

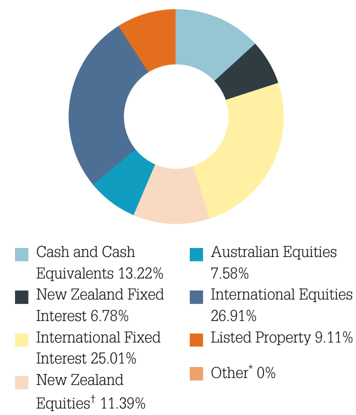
*Other includes currency derivatives used to manage foreign exchange risk.

[1]The actual investment mix incorporates the notional exposure value of equity derivatives and credit default swaps, where applicable.

Milford Investment Funds Monthly Review as at 31 October 2019

Balanced Fund
Portfolio Manager: Mark Riggall

Actual investment mix [1]



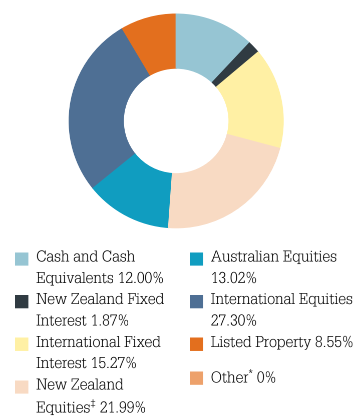
The Fund returned 0.2% in October, bringing the 1-year return to 12.8%. The diversification of investments within the Fund was key in delivering a positive return this month.

Local NZ and Australian markets underperformed, with a notable fall in the electricity companies after the future viability of the Tiwai Point aluminium smelter was called in to question by its owner Rio Tinto. Australian shares fell as the banking regulator announced measures to strengthen protection for depositors - impacting bank profitability and causing their share prices to fall. Both of these events impacted performance during the month but were more than offset by strong performance in investments elsewhere.

Global shares had a good month as a US-China trade deal looks possible and in Europe a worst case 'no deal' outcome to Brexit looks less likely. Corporate bonds also performed well, outperforming government bonds as investors continue to look for higher yielding assets in a low interest rate environment.

Finally, a reduced exposure to foreign currencies helped during the month as the NZ dollar outperformed. It is unusual for all assets to move together in the same direction, particularly month to month, so the Fund's diversification helps to cushion volatility within the Fund. We expect future returns to remain positive, albeit at a slower pace than in the past year.

Active Growth Fund
Portfolio Manager: Jonathan Windust



The Fund rose 0.1% in October with strong returns from global shares (+1.9%) offset by negative returns from Australian and New Zealand share markets. Global shares benefited from good earnings results and some reduction in market uncertainty. The performance of the Fund's global fixed income investments performed strongly with bonds from UK Banks CYBG and Barclays up 4.1% and 3.7% respectively with the prospects for a messy Brexit reducing.

Key company performers included AMA (+14.3%) in Australia, Serko (+11.9%) in New Zealand and HCA Healthcare (+10.9%) in the US. Serko provides travel management software and rose following news that it had a reached an agreement with global company Booking.com to use its software and take a 4.7% stake in the company. We believe Serko which has a dominant market share in Australasia has a significant opportunity to take its software global. AMA (the Australasian panel beating company) rose following an accretive acquisition, whilst HCA delivered a strong earnings result.

During the month we increased the allocation to global shares given the reduction in global uncertainty. 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.

†Includes unlisted equity holdings of 0.29% ‡Includes unlisted equity holdings of 2.04% *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

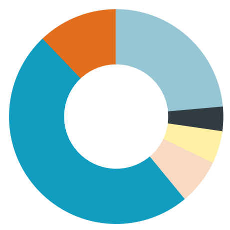
The Fund produced a small gain of 0.3% in October, slightly ahead of the ASX 200 Index performance of -0.4%.

We had another strong performance from mortgage broker AFG (+22.7%) which continues to rally with the recovering Australian housing market. Other strong performers were panel beater AMA Group (+14.3%), investment platform Praemium (+25.7%) and healthcare company CSL (+9.6%).

We suffered some losses last month from our New Zealand electricity companies and gold mining companies. The potential closure of New Zealand's Tiwai Point aluminium smelter had a large impact on the share prices of Contact Energy (-13.6%) and Meridian Energy (-11.5%). We did reduce our position in these two businesses shortly after the potential closure was announced as we believe the uncertainty will weigh on their valuations for some time. The gold mining companies pulled back due to a lower gold price and some weaker quarterly operational updates. We saw this as a good opportunity to increase our position.

Over the month we began to reduce our investment in major Australian banks. The sector has performed reasonably strongly this year as the royal commission into banking was more benign than expected and sentiment towards the housing market improved. This positive news is now largely reflected in their share prices, but the industry still faces significant challenges from lower interest rates and an intense competitive environment.

Actual investment mix [1]



Trans-Tasman Bond Fund

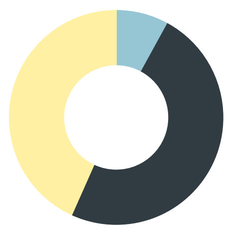
Portfolio Manager: Paul Morris

Australasian bond prices fell in October on diminished expectations for further cash rate cuts in Australia and New Zealand. That was a return headwind for the Fund and it fell 0.3% in the month. While disappointing, this was in line with the benchmark return and still represents a 6.9% 1-year return.

The Fund remains primarily exposed to corporate bonds which generally outperformed government bonds, albeit to a lesser extent than seen offshore. Given improved valuations we have retained the recently increased exposure to government/local authority bonds (close to benchmark weighting).

We were active in the primary market, participating in new bonds from Argosy Property, Origin Energy, Vicinity Property, Coles Group and Verizon (the US telco). Against this we reduced offshore US dollar and Euro bond holdings further, taking profit in holdings in QBE, Asciano and National Australia Bank.

Looking forward, inflation remains below central bank targets so monetary policy should remain supportive for returns. Post the recent rise in market interest rates, near term returns may improve (but we reiterate that they may be lower than over the past year) and the Fund holds close to benchmark interest rate duration. The improved risk backdrop should also be conducive for corporate bonds to continue to outperform government bonds, albeit we note some elevated valuations.



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Global Corporate Bond Fund

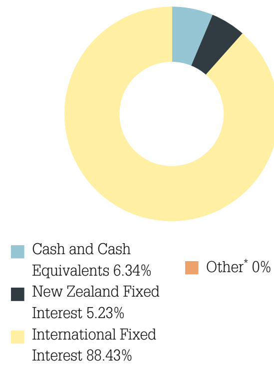
Portfolio Manager: Paul Morris

Performance across global corporate bonds was mixed in October. Corporate bonds generally enjoyed strong outperformance relative to government bonds, however absolute returns in many markets were offset by higher market interest rates as expectations fell for further central bank cuts (meaning weaker government bonds). The Fund still delivered a reasonable 0.4% in the month, 0.1% more than its benchmark.

While we remain wary of elevated valuations across many corporate bond markets, myriad factors have improved confidence with respect to the Fund delivering positive, albeit more moderate, near term returns. (1) The risk backdrop has improved with a stabilisation in global economic data, reasonable company earnings, a de-escalation in the tariff war and receding risks of hard Brexit. (2) Inflation remains below central bank targets and therefore monetary policy should remain supportive of investor demand for corporate bonds. (3) The rise in market interest rates sees them closer to fair value (which led us to add back more interest rate exposure to close to benchmark/neutral).

All that said, high valuations, how deep we are in the economic/credit cycle and pockets of excessive company leverage (debt levels) mean it is prudent to retain somewhat defensive settings versus benchmark/neutral; a preference for investment grade rated bonds over high yield bonds (below investment grade).

Actual investment mix [1]



Cash Fund

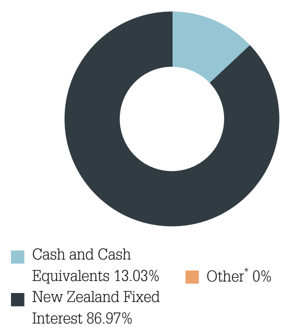
Portfolio Manager: Paul Morris

In November 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 0.13% in the month which was 0.04% above its benchmark.

There was no RBNZ meeting in October. The market still expects the RBNZ to cut the OCR to 0.75% (currently at 1.00%) but expectations for the timing have become more uncertain.

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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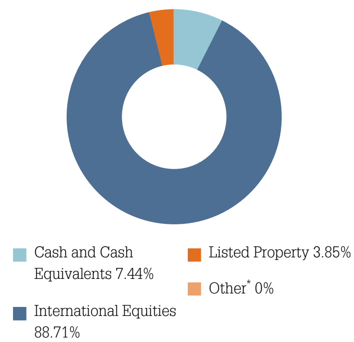
Global Equity Fund

Portfolio Manager: Felix Fok

Actual investment mix [1]



The Fund edged up 0.1% in October as global share markets traded firmer on the back of corporate earnings and the prospects of a trade deal between the US and China.

Positive contributors included clear plastic braces manufacturer Align Technology (+39.4%). The maker of Invisalign reported strong results as demand rose more than 20% despite Align being a premium product.

Taiwan Semiconductor Manufacturing Company (TSMC) rose 11.1%. TSMC plans to increase capital spending to NZ$23bn this year, 40% more than earlier plans. Investors read this as a positive sign of future demand from customers involved in smartphones, data centers, and next generation telecommunications.

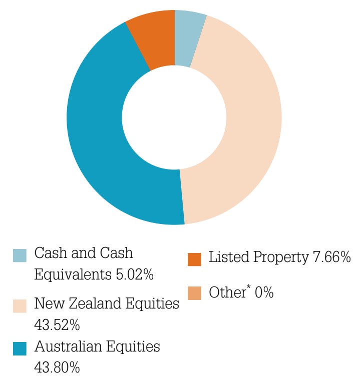
Detractors from performance included Estee Lauder (-6.4%). The company benefited from strong demand for skincare products as well as increased spending on the beauty category in China. However, shares came under pressure on management's cautious tone and outlook.

During the month, the Fund divested all external managed fund holdings in preparation to hold all future investments directly. The proceeds from the sales of external funds are being deployed in a portfolio of direct stocks.

Overall, the economic backdrop remains one of slowing economic growth but central banks in the US and Europe have cut 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 had a small negative return of 0.3% in October. This compares to the NZX 50 Gross Index return of -1.3% and the ASX 200 Index return of -0.4%. The NZX 50 was softer largely due to the announcement of a strategic review at the Tiwai Point aluminium smelter by owner Rio Tinto. A closure of the smelter would result in materially lower electricity prices/industry profits in the short term.

Key winners for the Fund included Xero (+10.8%), mortgage broker Australian Finance Group (+22.7%,) and biotech exposure CSL (+9.6%). Afterpay Touch (-19.5%) was the largest detractor, giving back September's gain on news that the RBA will commence a review of card payments regulation in 2020 including considering if there are any issues associated with the buy now pay later space. Over the month the Fund participated in Kathmandu's $154m capital raising to fund the acquisition of surf brand Rip Curl. The acquisition is complementary to Kathmandu's technical product focus and will open up a number of growth opportunities and cost synergies. The Fund reduced exposure to electricity sector due to uncertainty surrounding the ongoing operation of the aluminium smelter at Tiwai Point.

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

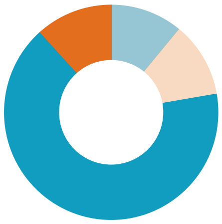
Portfolio Manager: William Curtayne & Michael Higgins

The Fund returned 1.6% in October, rounding out a strong 21.0% return for year. The 2.1% outperformance against our small cap benchmark was led by a number of our core stalwart positions, which have all been in the portfolio for more than 2 years.

This includes mortgage broker and aggregator AFG (+22.7%), international student placement and high-stakes English language testing provider IDP Education (+14.3%) and panel beater AMA Group (+14.3%). AFG has had a stellar year having rallied 110% over the prior 12 months. While we have recently taken some profits to manage position size, we still like the medium-term outlook and exposure to a stabilising property market. Detractors for the month included Contact Energy (-13.6%) on the viability of Tiwai Point aluminium smelter and EML payments (-6.8%) having delivered over 150% return over the prior 12 months.

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)	16/01/2020
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

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[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 31 October 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*	0.15%	8.68%	6.95%	—	6.86%	1.1778	378.7 M
Diversified Income Fund*	0.12%	13.36%	9.99%	10.09%	11.59%	1.8202	2,330.3 M
Balanced Fund	0.23%	12.80%	9.98%	9.30%	10.05%	2.4117	725.5 M
Active Growth Fund#	0.14%	13.45%	11.35%	11.19%	12.63%	3.9336	1,146.5 M
Australian Absolute Growth Fund	0.27%	15.01%	—	—	9.13%	1.1539	171.1 M
Cash and Fixed Income Funds							
Trans-Tasman Bond Fund*^	-0.27%	6.86%	5.12%	5.32%	5.76%	1.1722	622.6 M
Global Corporate Bond Fund*^	0.39%	8.27%	—	—	5.44%	1.0705	617.3 M
Cash Fund	0.13%	—	—	—	—	1.0129	44.6 M
Equity Funds							
Global Equity Fund†	0.13%	13.66%	11.18%	7.80%	8.31%	1.6728	579.9 M
Trans-Tasman Equity Fund*	-0.28%	22.25%	16.80%	13.02%	11.64%	3.0889	425.0 M
Dynamic Fund	1.62%	21.02%	13.84%	12.80%	13.56%	2.1448	272.4 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)	-1.21%	24.43%	17.00%	16.24%	16.79%
S&P/ASX 200 Accumulation Index (AUD)	-0.35%	19.28%	12.56%	8.47%	10.45%
S&P/ASX 200 Accumulation Index (NZD)	-0.50%	18.02%	12.93%	7.38%	7.94%
MSCI World Index (local currency)*	1.88%	12.49%	11.80%	8.51%	11.61%
MSCI World Index (NZD)*	0.27%	14.75%	16.01%	11.82%	14.15%
S&P/NZX 90-Day Bank Bill Rate	0.10%	1.81%	1.94%	2.40%	2.55%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	-0.17%	10.67%	3.93%	3.93%	3.73%
S&P/NZX NZ Government Bond Index	-1.08%	7.98%	4.94%	5.56%	4.50%

*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
Bank Of China 3% 2020 1.40%	Spark New Zealand 2.15%	Spark New Zealand 1.73%	Contact Energy 3.51%	Transurban Group 4.65%
John Deere 1.75% 2024 1.33%	Contact Energy 1.65%	Contact Energy 1.57%	a2 Milk Company 3.31%	National Australia Bank 3.96%
Vector 3.45% 2025 1.30%	QBE 6.75% 2044 1.64%	a2 Milk Company 1.52%	Spark New Zealand 3.28%	CSL 3.21%
NZLGFA 1.5% 2029 1.28%	Mirvac Group 1.50%	Microsoft Corp 1.01%	iShares MSCI EAFE Min Vol ETF 2.90%	BHP Group 3.21%
Westpac 2.22% 2024 1.21%	Charter Hall Education Trust 1.37%	Transurban Group 1.01%	Microsoft Corp 1.77%	Commonwealth Bank 3.06%
ANZ Bank Float 2024 1.20%	Transurban Group 1.28%	Alphabet 1.00%	Transurban Group 1.68%	AMA Group 2.95%
JPMorgan 5% 2024 1.17%	Bank of America 3.458% 2025 1.14%	Mirvac Group 0.91%	Visa 1.65%	Mirvac Group 2.75%
ANZ Bank 3.03% 2024 1.17%	JPMorgan 1.09% 2027 1.13%	Visa 0.88%	Alphabet 1.54%	Australian Finance Group 2.52%
ING Group 1.45% 2024 1.15%	Charter Hall Long Wale REIT 1.10%	Financial Select SPDR 0.84%	HCA Holdings 1.52%	a2 Milk Company 2.35%
ASB Bank 1.83% 2024 1.02%	Arena REIT 1.10%	HDFC Bank 0.83%	Kiwi Property Group 1.34%	Westpac Banking Corp 2.27%

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
NZLGFA 1.5% 2029 2.85%	AT&T 3.45% 2023 2.27%	Auckland Airport CD 2019 7.63%
ANZ Bank 3.03% 2024 2.70%	John Deere 1.75% 2024 2.17%	Kiwibank 1.85% 2019 6.98%
ANZ Bank Float 2024 2.42%	Kerry Group 0.625% 2029 2.09%	TSB Bank CD 2019 6.96%
Westpac 2.22% 2024 2.23%	Dell Float 2023 2.02%	Westpac CMD 2019 6.82%
Housing NZ 3.36% 2025 2.15%	Sumitomo Mitsui 2.09% 2024 1.96%	Mercury CD 2019 6.73%
John Deere 1.75% 2024 2.15%	Seagate 4.75% 2025 1.96%	Fonterra CD 2019 6.73%
ING Group 1.45% 2024 2.14%	McDonald's 3% 2024 1.91%	SBS Bank CD 2019 6.72%
ASB Bank 1.83% 2024 2.01%	Downer Group 4.50% 2022 1.81%	Port of Tauranga CD 2020 6.71%
NZ Governement Bond 3% 2024 1.85%	QBE 6.75% 2044 1.70%	ANZ 2.14% 2019 6.08%
Spark New Zealand 3.37% 2024 1.71%	Aroundtown 4.5% 2025 1.62%	Transpower CD 2019 5.38%

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).

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

Equity Funds

Global Equity Fund	Trans-Tasman Equity Fund	Dynamic Fund
Alphabet 3.01%	a2 Milk Company 7.21%	Credit Corp Group 3.83%
Financial Select SPDR 2.94%	Fisher & Paykel Healthcare 4.94%	Australian Finance Group 3.75%
Microsoft Corp 2.93%	CSL 4.04%	Bapcor 3.27%
Amazon 2.63%	Spark New Zealand 3.55%	AMA Group 3.18%
HDFC Bank 2.57%	National Australia Bank 3.47%	IDP Education 3.10%
Visa 2.48%	Auckland Airport 3.16%	Wellcom Group 3.05%
CME Group 2.39%	Transurban Group 3.08%	EQT Holdings 2.73%
Mastercard 2.30%	Contact Energy 3.01%	EML Payments 2.59%
Taiwan Semiconductor 2.17%	Commonwealth Bank 2.85%	Northern Star Resources 2.29%
Crown Castle 1.97%	BHP Group 2.76%	Charter Hall Group 2.14%

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 $27.5 million invested across our Unit Trust PIE Funds as at the end of October 2019.

Felix Fok
Portfolio Manager

Investment Highlight - Ferrari
How to spot a thoroughbred

A Ferrari arouses the senses not only physically (the bodywork, the speed, the soundtrack!) but also intellectually.

Why would anyone pay $300k-$1m for a prancing horse-badged machine knowing that it will be caged by urban roads, spend most of its time in a garage, and incite the wrath of the Greta Thunbergs of the world? And how did a niche carmaker reach a market capitalization of $47bn, more than half of the value of BMW despite selling significantly fewer cars (10,000 vs. 2,500,000)?

In general, makers of passenger cars, including sports cars, are struggling. Slowing global economies, ever tighter emissions standards, and investment by carmakers. Shares of traditional European majors, like Volkswagen, Daimler (Mercedes) and BMW, are flat to lower over the last 5 years. High-end sports cars peer Aston Martin, listed in London, has seen its shares fall 65% in the past year and is in trouble after having to borrow funds at 12% interest.

Ferrari is not immune; it is just much better placed.

First, Ferrari is a luxury brand selling to the affluent, who are likely to have spending power even in a downturn. Example, ahead of the launch of the Laferrari Aperta in 2015 the company discretely invited 209 select, loyal owners to pre-commit $1m plus for their latest model, sight unseen – the acceptance rate was more than 90%. Such limited production models have added appeal as Ferraris are a blue-chip for investors in the market of classic cars. In 2018, a 1962 Ferrari 250 GTO changed hands for $70m; it was one of 36 made. Not all things limited-edition will appreciate over time, but the pedigree is clear. Ferrari's pricing power as a business is one of the strongest in the market.

Second, its participation in Formula One racing since 1950 and its founding history help build a brand image that is persistently tied to racing and performance. Since its founding, all Ferraris have been built in the small Italian town of Maranello with significant local labour and livelihoods tied to the company. The people working at Ferrari are proud to be associated with the company and Italy (note the main rivals to Ferrari in F1 are German, UK and French brands). This heritage adds to uniqueness and is very difficult to replicate.

Third, the tech from F1 racing can later be applied to road cars, driving innovation and technology leadership. For example, F1 cars have used batteries to recover energy from braking for some time; this helped Ferrari develop its hybrid system for its road cars. The company has a goal for 60% of its deliveries to be hybrid drive (petrol + electric) by 2022.

Lastly, Ferrari has done well with its Ferrari Store. These high-street brand stores sell apparel, memorabilia and customer experiences that help soften the public perception of and make accessible to the masses an otherwise ostentatious brand.

Its shares have performed well for us, up 39% in the past year. Since its debut on public markets in 2016, the share price is up 232%, a sign of a thoroughbred.

LaFerrari Aperta – only 210 were made. Ferrari discretely invited and pre-sold this $1m plus model to select loyal owners ahead of the unveiling of the car.