MILFORD

Milford Investment Funds Monthly Review
December 2019

Market and Economic Review

November saw investors embrace optimism for the first time this year as we inch closer to a trade deal and evidence builds of an emerging global growth rebound. Fund returns were strong this month, reflecting sharply higher share markets both locally and overseas.

For most of the year, investors have been concerned about the deteriorating global economic outlook, driven by the impact of the US-China trade war on global trade and the business sector. Recently there has been a pause in the escalation of tariffs and there is hope that a trade deal will be signed before Christmas, paving the way for improvements in business sentiment. This development has enticed investors off the sidelines and money has been put to work in shares across the globe, boosting prices.

When markets experience inflows it tends to be the larger stocks that benefit, and this was true in Australia and NZ this month with large cap stocks outperforming in both regions. However, November also saw plenty of opportunity for stock selection.

In NZ, positive trading updates from the likes of a2 Milk and Fisher and Paykel Healthcare saw these stocks up 19.4% and 15.7% respectively in the month. Elsewhere, a long-term shareholder in EBOS Group decided to sell a large stake at a discount offering investors a rare chance to buy the shares in good volume.

In Australia, the banks continue to strengthen their balance sheets and this time it was Westpac's turn to ask investors for A$2bn of more capital. Only days later, the company announced that they had been accused of breaching money laundering laws, sending the share price down 3.5% on the day. Infrastructure company Atlas Arteria also raised capital, asking for A$1.35bn to fund the purchase of a toll road in France. Despite these headwinds, the Australian market had a strong month, largely powered by the commodity stocks.

Looking ahead, the economic outlook has started to improve both domestically and further afield. However, we temper our expectations of future returns given share markets are already reflecting much of this improvement, and interest rates are already very low.

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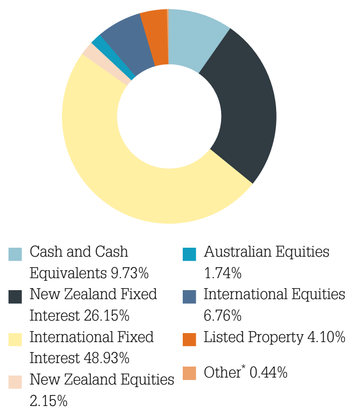
Conservative Fund

Portfolio Manager: Paul Morris

Actual investment mix [1]



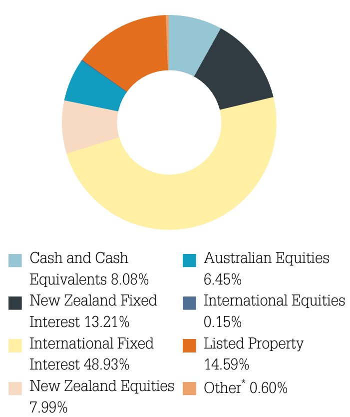
The Fund delivered a return of 0.5% for November, contributing to a 1-year return of 9.6%. Bond returns were mixed in the month, with strong performance from Australian bonds outperforming a close to flat return from NZ and global bonds.

In NZ, the anticipated November rate cut did not materialise while expectations for further global central bank rate cuts diminished. Returns from the Fund's shares were generally positive. Global shares had a strong month supported by an improving economic outlook. Australasian shares contributed a positive return, but the Fund's income share focus underperformed the broader share market. Considering ongoing risks to global growth (Brexit, trade) and our conservative risk profile, during the month we reduced some of the Fund's recently increased share exposure into market strength.

Looking ahead, ongoing supportive central bank monetary policy and low inflation should support bond prices with market interest rates likely to remain in recent ranges. Low interest rates and an improving economic backdrop should underpin share market returns. We therefore remain cautiously optimistic on the return outlook, maintaining slightly less defensive positioning relative to earlier in the year, but still with less shares than the long run neutral. We reiterate however that the price gains already posted by bonds and shares mean the recent moderation in Fund returns could continue in the near term.

Diversified Income Fund

Portfolio Manager: David Lewis



The Fund rose by 0.6% in November and is up by 14.1% in the past year. While we are very pleased with Fund performance this year, looking forward over the medium term we continue to emphasise that we expect notably lower returns. This reflects much lower interest rates, and therefore yields on fixed income securities, as well as higher valuations in share markets.

Returns this month were driven by our share holdings, with particular strength in growth-oriented companies, while returns in fixed income were lower (essentially flat for corporate bonds in NZ, Australia and globally).

At the company level, performance highlights this month were a2 Milk (+19.4% following strong earnings guidance), Origin Energy (+10.7%), and Australian diversified property company Mirvac (+5.0%, supported by improving sentiment and pricing in the Australian residential housing market). On the negative side, several of our Australian property holdings fell modestly (Charter Hall Group, Arena and Charter Hall Education Trust all 2-5% lower) as they gave back some of the strong gains seen earlier this year.

In terms of strategy, given strong recent market performance and general investor optimism about the trade war, we are taking an incrementally more cautious approach short term. This is reflected in the Fund's exposure to shares which is now at 29%, from 31% at the end of October.

*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

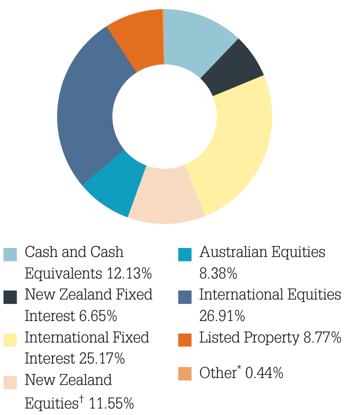
Portfolio Manager: Mark Riggall

The Fund returned 1.5% in November, bringing the 1-year return to 15.2%. Fund returns continue to be strong, benefiting from the sustained move higher in share markets.

With interest rates remaining low and signs of improving economic growth investors have been attracted to shares, partly because of the lacklustre returns on offer elsewhere (for example in bonds that currently offer very low yields). This was evident in the performance of the NZ and Australian share markets this month where broad inflows drove these markets up 4.9% and 3.3% respectively. Global share markets also fared well as investors became optimistic on the prospects of a US-China trade deal - alleviating some of the pressure on global trade that has been building over the past 18 months.

Looking ahead, it does appear that some of the dark clouds over the global economy are starting to part. This does leave us more predisposed to share markets, particularly global ones that have more to gain from improved growth and are more reasonably valued than local shares. However, we are also wary that in the short-term markets already reflect an improving growth outlook and so have increased cash levels in the Fund. Medium term, improving growth coupled with low interest rates is a good investing environment but with broad valuations of shares high, stock selection will be key.

Actual investment mix [1]



Active Growth Fund

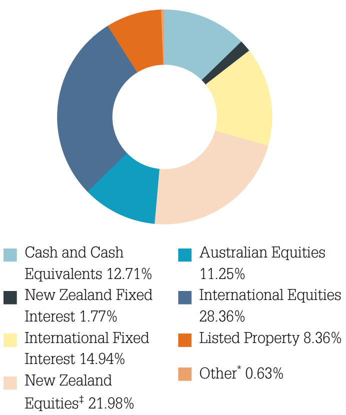
Portfolio Manager: Jonathan Windust

The Fund rose 2.0% in November with strong returns from share markets; global (+3.2%), New Zealand (+4.9%) and Australia (+3.3%). Shares benefited from increased investor appetite due to signs that economic growth had stabilised, and that trade and political uncertainty had reduced.

Key company performers during the month included a2 Milk (+19.4%) and retirement operators Metlife (+21.2%) and Summerset (+17.0%). a2 Milk benefited from a good trading update at its annual shareholder meeting forecasting revenue growth of approximately 30% for the first half of its financial year. Metlife rose following news that it had received an indicative bid for the company. Retirement operators also benefited from signs of strength in the key Auckland residential property market.

During the month, the Fund added to our holdings in EBOS, the healthcare distribution company, as part of a sell down by one of its major shareholders. We believe EBOS is well positioned to continue to grow earnings with strong management and a strong competitive position. Towards the end of the month we reduced some of the Fund's exposure to shares, taking profit after strong gains and reflecting the possibility of renewed political uncertainty. Looking forward shares remain supported by low rates, reasonable dividends and positive economic growth. Key headwinds are relatively high valuations, slowing growth and political uncertainty.

Please note this Fund is closed to new investors.

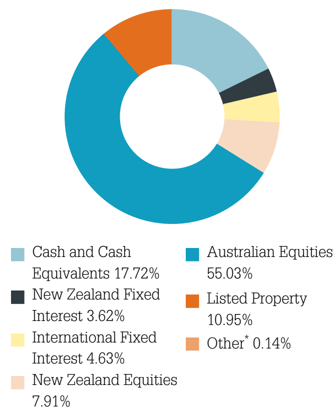


†Includes unlisted equity holdings of 0.28% ‡Includes unlisted equity holdings of 1.95% *Other includes currency derivatives used to manage foreign exchange risk.
[1]The actual investment mix incorporates the notional exposure value of equity derivatives and credit default swaps, where applicable.

Australian Absolute Growth Fund

Portfolio Manager: William Curtayne & Wayne Gentle

Actual investment mix [1]



The Fund gained 0.7% in November, bringing the 1-year return to 16.4%.

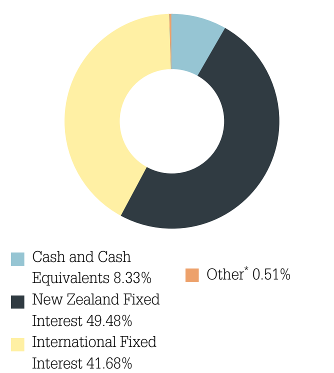
Equity markets were supported by progress on the US-China trade front and some signs of a recovery in global growth. This supported the energy and materials sectors on the ASX where the Fund made strong gains on its investments in BHP (+6.3%) and Woodside (+7.2%). The bank sector was particularly weak after some softer results from the major banks and the Westpac capital raise followed by the AUSTRAC scandal weighing heavily on its share price. The Fund had reduced its exposure to the sector prior to results and currently has just under 8% invested in the sector.

Our top contributor last month was the a2 Milk Company (+19.4%) which recovered recent losses after a positive trading commentary at its annual meeting. Some of our recent winners dragged on performance as they gave up a portion of their recent gains. This included Praemium (-10.2%), AFG (-7.8%) and AMA (-9.8%).

Over the month we increased our investment in the resources and energy sector. Valuations in these sectors are attractive as the market has been cautious on this space due to the global trade-wars and slowing global growth. The progress on trade and encouraging global growth signs should support commodity prices and valuations for these stocks.

Trans-Tasman Bond Fund

Portfolio Manager: Paul Morris



Australasian bonds were mixed in November, limiting the Fund's return to 0.3% in the month. NZ dollar rate cut expectations fell but in Australia they increased, resulting in outperformance of Australian dollar bonds relative to NZ dollar bonds.

Exposure to government/local authority bonds was increased slightly again (closer to the neutral exposure) but the Fund remains focused on corporate bonds which outperformed in November. November was a busy month for new bond issuance, especially in Australia, and the Fund participated in offers from Housing NZ, Vicinity Centres (property), Macquarie University, Ports of Melbourne, ANZ and Qantas. Against this we continued to sell expensive holdings but retained a similar average credit rating. The impact to the Fund from the AUSTRAC proceedings against Westpac was limited by a below neutral exposure and the fact that the Australasian bond market price reaction has been small.

Looking forward, the outlook remains for moderate returns, but lower than those realised over the past year. Central bank policy should remain supportive but in the near term another significant fall in market interest rates is unlikely. For now, we retain interest rate exposure close to neutral. Corporate bond valuations are not cheap on an absolute basis or versus government bonds, but Australasian bonds look reasonably attractive versus offshore.

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Milford Investment Funds Monthly Review as at 30 November 2019

Global Corporate Bond Fund

Portfolio Manager: Paul Morris

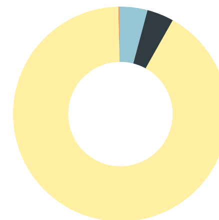
The Fund returned 0.04% in November. Global bond prices were mixed again as expectations reduce for further monetary policy stimulus. In a supportive risk environment, corporate bonds generally continue to outperform government bonds, with high yield bonds outperforming investment grade. Euro denominated corporate bonds were a small laggard but this is after strength year to date.

The Fund's lower ranking (subordinated) bank bonds also had a strong month. After a quieter October, new bond issuance increased and the Fund added exposure to Belfius Bank (Belgium), DNB Bank (Norway), National Australia Bank, Owens-Illinois & Ball Corp (both packaging businesses), Lloyds Bank and Apple.

Elevated valuations and pockets of high company leverage (debt levels) mean it is prudent to retain slightly defensive Fund settings versus benchmark/neutral, even if the economic/earnings backdrop has improved. This means a preference for investment grade rated bonds over high yield bonds (below investment grade). Near term, corporate bond interest rates are likely to be range bound, anchored by supportive central bank policy and inflation, in an improved earnings outlook. Fund interest rate exposure is therefore close to, but just less than, neutral.

Looking forward, the outlook remains for positive but moderate returns. With interest rates already low these will be lower than last year.

Actual investment mix [1]



Cash and Cash Equivalents 4.16%
New Zealand Fixed Interest 4.02%
International Fixed Interest 91.41%
Other* 0.41%

Cash Fund

Portfolio Manager: Paul Morris

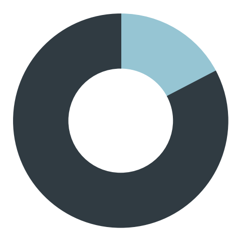
In November the Fund continued to successfully deliver on its objective to return in excess of the Reserve Bank of New Zealand (RBNZ) Official Cash Rate (OCR) after fees. It returned 0.12% in the month.

In November the RBNZ surprised market consensus by leaving the OCR unchanged at 1.00%. The RBNZ continues to indicate that the OCR will remain at low levels for "a prolonged time" and is ready to add further stimulus if needed.

The market remains biased towards another 0.25 percentage points OCR cut in 2020 but confidence in this outcome is reduced.

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 should be an attractive, 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.



Cash and Cash Equivalents 17.34%
New Zealand Fixed Interest 82.66%
Other* 0%

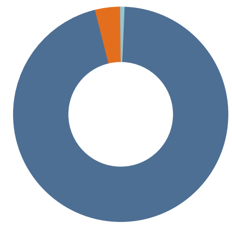
*Other includes currency derivatives used to manage foreign exchange risk.

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

Global Equity Fund

Portfolio Manager: Felix Fok

Actual investment mix [1]



The Fund climbed 2.7% in November. Global share markets were buoyed by recent US interest rate cuts as well as expectation of a positive outcome from US-China trade talks.

Positive contributors included Chinese online shopping giant Alibaba (+13.2%). Alibaba is dominant in its home market and continues to grow at very high rates despite already NZ$830bn in market capitalisation. During the month, the company successfully raised NZ$20bn from investors to fund growth initiatives, such as online shopping and electronic payments outside of China, logistics, shared computing and data analysis.

Walt Disney (+16.7%) rose last month as the movie studio and theme park operator finally launched its highly anticipated streaming service, akin to Netflix. Disney+ had strong early sign ups in the US and a few of the test markets, including NZ. A wider Europe launch is due March 2020.

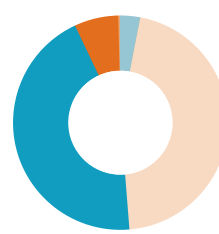
Detractors from performance included IDEXX Laboratories (-11.7%). IDEXX is the dominant player in animal diagnostics which help veterinarians improve pet and livestock welfare. Its highly rated CEO recently left due to a medical situation, and the former chief has started to sell down his stake. The Fund has now exited IDEXX to make room for stronger ideas in the portfolio.

Home Depot (-6.0%) reported results which were lower than market expectations. Home Depot is investing NZ$17bn in supply chain and logistics to better interconnect offline and online sales of home improvement products to retail customers as well as professional tradesmen. Home Depot is due to update investors on progress in early December.

Overall, the economic backdrop remains one of slow economic growth, but global central banks have responded with lower interest rates. The portfolio remains focused on our key investment themes and dominant companies.

Trans-Tasman Equity Fund

Portfolio Manager: Sam Trethewey & Wayne Gentle



The Fund delivered a strong 4.4% return in November and is now up 29.6% over the past 12 months. The Fund's November return compares to the NZX 50 Gross Index return of 4.9% and the ASX 200 Index return of 3.3%.

Key winners for the Fund included a2 Milk (+19.4%, the Fund's largest holding) and Xero (+17.8%). a2 Milk provided a strong trading update at its annual meeting which helped to reverse margin downgrades from earlier this year and indicated 80% revenue growth for its China label infant formula product.. Xero delivered a result that illustrated strong momentum in subscriber growth across Australia and the UK, supported by governments mandating increased tax filing online. Over the month the Fund reduced its holdings in the major Australian banks in favour of resource exposures BHP and Rio Tinto. The Fund also increased its holding in EBOS, participating in the sell down by major shareholder the Zuellig family.

Looking ahead, there have been signs of stabilising economic growth in NZ while the Australian housing market continues to improve. The November results support continued earnings growth in our large cap names. We continue to focus on ensuring the Fund remained positioned in stocks offering attractive returns relative to their risk and away from stocks where we see downside risk to earnings or stretched valuations.

*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

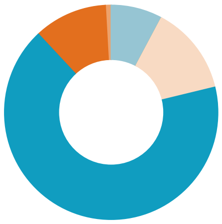
Domestic equity markets remained robust through November as low rates and US-China trade optimism provided a healthy kick to the growthy-end of the market. The Fund delivered a 1.4% return for the month and is now up 23.8% for the year.

Performance was led by companies such as payments processor SmartPay Holdings (+125.0%), digital payments provider EML Payments (+19.7%) and a2 Milk (+19.4%). SmartPay, a stalwart in the Fund, announced the sale of its NZ business to American multinational Verifone for NZ$70m cash. The stock rallied hard on the unexpected news which highlighted to the market the hidden value in the business. EML announced the highly accretive acquisition of Prepaid Financial Services and a2 Milk recovered recent losses after positive trading commentary at its AGM.

Laggards included panel beating consolidator AMA Group (-9.8%) which continues to digest the acquisition of Capital S.M.A.R.T. and mortgage broker AFG (-7.8%) which pared some recent strong gains.

While our recent performance has been strong, the market remains volatile. We remain cognisant that we are in a period of elevated uncertainty with a broad range of potential market moving scenarios in play. While it is too early to position strongly for an upswing in global growth, a trade truce and of course Brexit, we are cautiously optimistic into Christmas.

Actual investment mix [1]



Cash and Cash Equivalents 7.81%
Listed Property 11.10%
New Zealand Equities 13.42%
Other* 0.88%
Australian Equities 66.79%

Upcoming Distributions	Target	Payment Date
Conservative Fund	0.5 cents (Quarterly)	16/01/2020
Diversified Income Fund	1.1 cents (Quarterly)	20/02/2020
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.

[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 November 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*	0.53%	9.61%	7.09%	—	6.86%	1.1840	386.0 M
Diversified Income Fund*	0.58%	14.07%	9.92%	10.01%	11.55%	1.8194	2,395.9 M
Balanced Fund	1.54%	15.18%	10.45%	9.41%	10.13%	2.4487	754.8 M
Active Growth Fund#	1.99%	17.26%	12.31%	11.18%	12.72%	4.0114	1,176.7 M
Australian Absolute Growth Fund	0.70%	16.44%	—	—	9.12%	1.1619	180.8 M
Cash and Fixed Income Funds							
Trans-Tasman Bond Fund*^	0.26%	7.34%	5.36%	5.23%	5.72%	1.1753	631.5 M
Global Corporate Bond Fund*^	0.04%	8.73%	—	—	5.29%	1.0709	637.9 M
Cash Fund	0.12%	—	—	—	—	1.0141	46.7 M
Equity Funds							
Global Equity Fund†	2.71%	17.40%	12.03%	8.05%	8.64%	1.7181	609.7 M
Trans-Tasman Equity Fund*	4.44%	29.62%	18.43%	14.64%	11.95%	3.2256	449.3 M
Dynamic Fund	1.38%	23.80%	14.48%	13.20%	13.62%	2.1744	283.5 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 the relevant annual 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)	4.95%	29.46%	19.24%	17.18%	17.19%
S&P/ASX 200 Accumulation Index (AUD)	3.28%	25.98%	12.66%	9.90%	10.88%
S&P/ASX 200 Accumulation Index (NZD)	1.32%	24.85%	13.07%	9.21%	7.95%
MSCI World Index (local currency)*	3.15%	14.71%	11.98%	8.57%	11.87%
MSCI World Index (NZD)*	2.69%	22.56%	16.13%	12.17%	14.35%
S&P/NZX 90-Day Bank Bill Rate	0.09%	1.76%	1.91%	2.35%	2.53%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	-0.12%	10.00%	4.47%	3.72%	3.64%
S&P/NZX NZ Government Bond Index	0.04%	8.02%	5.45%	5.42%	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
Westpac 2.22% 2024 1.36%	Spark New Zealand 2.14%	a2 Milk Company 1.72%	a2 Milk Company 3.60%	BHP Group 5.95%
Bank Of China 3% 2020 1.35%	QBE 6.75% 2044 1.62%	Spark New Zealand 1.71%	Spark New Zealand 3.28%	Woodside Petroleum 5.20%
John Deere 1.75% 2024 1.25%	Contact Energy 1.55%	Contact Energy 1.45%	Contact Energy 3.10%	CSL 3.46%
Vector 3.45% 2025 1.23%	Mirvac Group 1.49%	Microsoft Corp 1.22%	iShares MSCI EAFE Min Vol ETF 2.77%	a2 Milk Company 2.92%
NZLGFA 1.5% 2029 1.22%	Transurban Group 1.44%	Alphabet 1.13%	EBOS Group 1.99%	AMA Group 2.74%
ASB Bank 1.83% 2024 1.20%	Charter Hall Education Trust 1.25%	Visa 1.07%	Microsoft Corp 1.82%	Westpac Banking Corp 2.73%
JPMorgan 5% 2024 1.14%	Charter Hall Long Wale REIT 1.17%	Financial Select SPDR 1.05%	Visa 1.67%	National Australia Bank 2.60%
ANZ Bank Float 2024 1.12%	Bank of America 3.458% 2025 1.11%	Transurban Group 0.93%	Alphabet 1.53%	Transurban Group 2.10%
ANZ Bank 3.03% 2024 1.12%	JPMorgan 1.09% 2027 1.09%	HDFC Bank 0.92%	HCA Holdings 1.50%	Charter Hall Group 2.09%
ING Group 1.45% 2024 1.08%	Kiwi Property Group 1.06%	Mastercard 0.90%	iShares MSCI EAFE Index Fund 1.44%	EBOS Group 2.05%

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 2.80%	AT&T 3.45% 2023 2.17%	Auckland Airport CD 2020 6.94%
Westpac 2.22% 2024 2.70%	John Deere 1.75% 2024 2.08%	Kiwibank 2.1% 2020 6.64%
ANZ Bank 3.03% 2024 2.66%	Dell Float 2023 1.99%	TSB Bank CD 2020 6.62%
ASB Bank 1.83% 2024 2.53%	Kerry Group 0.625% 2029 1.96%	Westpac CMD 2019 6.52%
ANZ Bank Float 2024 2.34%	Seagate 4.75% 2025 1.91%	Mercury CD 2019 6.43%
Housing NZ 3.36% 2025 2.11%	McDonald's 3% 2024 1.83%	SBS Bank CD 2019 6.42%
John Deere 1.75% 2024 2.10%	Sumitomo Mitsui Float 2022 1.73%	Port of Tauranga CD 2020 6.41%
ING Group 1.45% 2024 2.09%	Downer Group 4.50% 2022 1.72%	Fonterra CD 2020 6.40%
NZ Government Bond 3% 2024 1.83%	QBE 6.75% 2044 1.66%	ANZ 2.14% 2019 5.81%
Sumitomo Mitsui Float 2022 1.69%	Aroundtown 4.5% 2025 1.51%	Transpower CD 2020 5.13%

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 3.84%	a2 Milk Company 8.21%	Credit Corp Group 3.89%
Microsoft Corp 3.79%	Fisher & Paykel Healthcare 6.00%	EML Payments 3.70%
Alphabet 3.63%	CSL 4.34%	IDP Education 3.04%
Mastercard 3.28%	BHP Group 3.58%	Bapcor 3.00%
Visa 3.28%	Spark New Zealand 3.57%	Australian Finance Group 2.98%
Amazon 3.04%	Ryman Healthcare 3.14%	Seven Group Holdings 2.94%
HDFC Bank 2.99%	Mainfreight 3.08%	AMA Group 2.86%
Taiwan Semiconductor 2.49%	Auckland Airport 3.01%	EQT Holdings 2.74%
ASML Holding 2.31%	Contact Energy 2.92%	a2 Milk Company 2.63%
Starbucks 2.30%	National Australia Bank 2.90%	Northern Star Resources 2.55%

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 $29.2 million invested across our Unit Trust PIE Funds as at the end of November 2019.

Sam Trethewey
Portfolio Manager

Investment Highlight - The a2 Milk Company

The a2 Milk Company has been a core holding in our equity portfolios since 2012 when the share price was below $1. Our initial investment was based on the company having a differentiated but largely unproven product and a passionate and highly incentivised management team led by CEO Geoff Babidge.

In the following years the company began to demonstrate some traction in the Australian fresh milk market, but it wasn't until 2015 when the company started to show some initial signs of success in the Chinese infant formula market. Since then a2 Milk has grown to become one of the largest companies listed on the NZX and has also moved into the top 100 companies listed on the ASX.

At a2 Milk's full year financial result in August this year, the company announced an intention to step up investment in their brand via increased marketing and associated infrastructure spend. On this news the share price has pulled back from highs of over $18.

New CEO Jayne Hrdlicka outlined to investors that she had spent the past year reviewing a2 Milk's market opportunity and was excited about the prospects ahead, but believed they needed to invest more to fully maximise the company's potential. She believed that it was in the best interest of a2 Milk shareholders to forego short-term profitability in favour of further investing in the brand in China and also in the US (to support a fresh milk product range).

Prior sales growth for the company had, to some extent, been driven by the highly cost efficient daigou channel (daigou is Chinese for "to buy on behalf of"), and growth in this channel has recently slowed due to increased regulation in China. Some shareholders took this announcement negatively given there is some uncertainty the increased investment in brand will be beneficial to the long-term value of the company.

Earlier this month, a2 Milk held its Annual Meeting in Auckland. The company provided an update to shareholders on how the company was tracking for the first half of the current financial year. Pleasingly, the update indicated the company experienced strong revenue growth across its distribution channels into China.

Key data points included +84% growth in their China label infant nutrition sales and +9% sales growth from the slowing Australasian English label product (the daigou channel). This was the first proof point for investors of the benefits of the new strategy, and since the annual meeting a2 Milk's shares have rallied 9.9%.

We believe that a2 Milk continues to have a differentiated product, a large market opportunity and a brand that is highly sought after by consumers. a2 Milk remains a core holding within our equity portfolios. We will continue to follow the company very closely.