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Milford Unit Trust PIE Funds Monthly Review
February 2019

Market and Economic Review

January was a strong month for investors with most markets recovering strongly after a disappointing December 2018 quarter. The following figures illustrate January's recovery;

- The NZX 50 Gross Index appreciated 2.0% in January compared with a 5.8% decline in the December quarter.
- The ASX 200 Accumulation Index climbed 4.0% last month, in NZ dollar terms, compared with a 11.7% fall in the last three months of 2018.
- The MSCI World Net Total Return Index increased 4.2% in January, in NZ dollar terms, following a 14.4% decline in the December quarter.

Milford's funds participated in January's recovery with the Active Growth Fund appreciating 3.0%, Diversified Income Fund 1.9%, Trans-Tasman Equity Fund 3.2%, Balanced Fund 2.3%, Global Equity Fund 4.5%, Dynamic Fund 3.6% and Conservative Fund 1.1%.

The share market recovery was mainly due to the US Federal Reserve Board's indication that it would raise interest rates more slowly than anticipated and it would adjust its quantitative easing strategies to market conditions. This was a huge relief to investors, particularly in the United States, because the Fed's interest rate policies have a huge impact on investor sentiment.

A more positive outlook for the US/China trade negotiations also contributed to improved investor sentiment, as did the early US company results for the December quarter.

The NZX had more modest gains with a2 Milk, Pushpay and Z Energy being the best performing benchmark index companies. The worst performing were Kathmandu, Air New Zealand and Tourism Holdings. The poor performance of the latter three companies reflects a reduction in domestic consumer confidence and a slowdown in inbound tourism growth.

Our investment team believes that economic growth will slow in New Zealand and Australia over the remainder of the year and the United States economic expansion has peaked. Consequently, we continue to take a cautious short-term view on share markets although the sharp downturn in the December 2018 quarter has presented some attractive buying opportunities.

Trans-Tasman Bond Fund

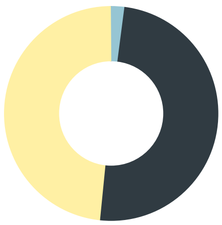
Portfolio Manager: Paul Morris

January saw a shift in global monetary policy away from higher interest rates. This underpinned New Zealand and Australian cash rate cut expectations, pulling market interest rates lower. The Fund was increasingly positioned to benefit from lower interest rates, contributing to a 0.5% return in January.

Australasian corporate bonds broadly matched government bonds, albeit they lagged strength in offshore peers (understandable given a strong outperformance in 2018). The Fund remains conservatively positioned, focused on lower risk corporate bonds, limiting holdings of Australasian offshore bonds and subordinated bonds. January is a quiet month for Australasian markets but we deployed cash into new Australian bank issues and a NZ dollar World Bank bond. We also bought more NZ Government Inflation-linked bonds which we believe offer attractive value.

Looking forward, more supportive monetary policy should underpin moderate returns. Australasian cash rate cuts are possible to combat potentially ongoing low inflation, slowing bank lending, weaker property markets and elevated offshore risks (notably slowing Chinese growth). That should support shorter dated bonds. Longer dated corporate bonds will be influenced by offshore where direction is less certain and potentially more volatile. Therefore, further increasing interest rate and credit exposure for now would be imprudent.

Actual investment mix[1]



Cash and Cash Equivalents 4.52%
International Fixed Interest 47.07%
New Zealand Fixed Interest 48.27%
Other* 0.14%

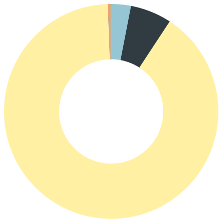
Global Bond Fund

Portfolio Manager: Paul Morris

Global corporate bonds enjoyed a strong start to 2019, albeit only partially recovering 2018's underperformance relative to government bonds. Prices were primarily lifted by a global central bank shift away from tighter monetary policy. Most notably the US Federal Reserve removed its bias for higher interest rates (due to fears it would stall growth), increasing hopes for an extended economic cycle.

The Fund remained cautiously positioned; holding bonds with a higher average credit rating and shorter average maturity, while keeping elevated levels of cash. Nevertheless, its holdings performed sufficiently well to nearly keep up with the broader global corporate bond market, helped by a slightly increased interest rate exposure, returning 1.7% in the month. We used market strength to further improve the quality of holdings, selling expensive, risky and less liquid corporate bonds. We did deploy cash into several attractively priced bonds which should outperform in both strong and weak market conditions.

Looking forward, more supportive monetary policy provides comfort, however, we remain wary of ongoing elevated risks; including a Chinese slowdown, tariffs wars, high company leverage and the volume of corporate and government funding needs in the context of reduced central bank buying. Therefore, we will continue to limit interest rate and credit exposure.



Cash and Cash Equivalents 6.00%
International Fixed Interest 87.39%
New Zealand Fixed Interest 6.03%
Other* 0.58%

*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.

Conservative Fund

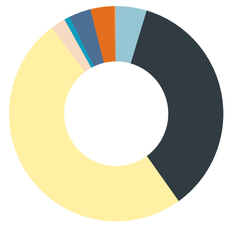
Portfolio Manager: Paul Morris

A shift in global central banks away from higher interest rates provided relief for bond and share markets. The US, European and Chinese central banks adopted more cautious stances, due to weaker growth and increased market volatility. This underpinned strength across the fixed interest and share asset classes into which the Fund is invested.

Despite defensive positioning, notably a lower share allocation, the Fund delivered a return of 1.1% over the month. Fixed interest benefited from falling interest rates. The Fund's global corporate bonds posted an impressively strong month (after low returns in 2018), while its Australasian corporate bonds benefited from cash rate cut expectations (to combat ongoing low inflation, weaker Chinese growth and a soft housing market). Global shares rose as the risk of higher interest rates choking growth reduced. The Fund's focus on Australasian income shares outperformed growth shares on falling interest rates.

Looking forward, supportive central bank policy provides comfort but many of the other risks vexing markets remain unresolved (e.g. tariffs, Chinese slowdown). 2019 is likely to see further bouts of market volatility and it remains prudent to retain cautious positioning. That may reduce upside return potential but active management of the Fund should still see it deliver a moderate and lower-risk return.

Actual investment mix[1]



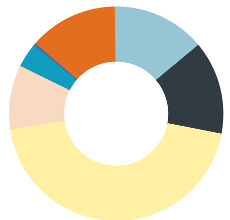
Diversified Income Fund

Portfolio Manager: David Lewis

The Fund had a strong January, rising by 1.9%, giving a 1-year return of 5.3%. Since markets turned lower in October, the Fund has made a small positive return of 0.7%. Returns this month were strong across the various asset classes in which the Fund invests, with gains for NZ and Australian shares of 2.0% and 3.9% respectively, 0.5% in Australasian corporate bonds and 1.7% in global corporate bonds.

Key performers in our share portfolio in January included European shopping mall owner Unibail-Rodamco-Westfield which rebounded (+16.1%) after a very weak December, a2 Milk (+13.5%), and Charter Hall Group (+10.9%). The Fund also benefited from increased interest rate exposure and from gains in European bank bonds. Portfolio activity included additions to Goodman Group, Chorus, and Spark, while reducing positions in Ooh Media and Sydney Airport.

The key driver of market strength was the US Federal Reserve which suggested it could be finished with the current cycle of interest rate increases, a notable change from its position in December. In addition, US economic data and company earnings were generally robust. Contrasting this, economic news weakened in Europe and China. Bringing this together, we believe a cautious strategy in the Fund is still warranted, albeit we believe downside risks have reduced somewhat. Our focus in coming months will remain on looking for bonds and shares that are attractively priced and from companies that we believe will be resilient to any potential economic downturn.



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Milford Unit Trust PIE Funds Monthly Review as at 31 January 2019

Balanced Fund

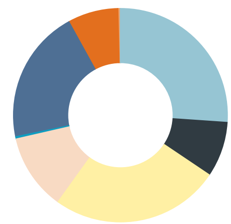
Portfolio Manager: Mark Riggall

The Fund returned 2.3% in January, with a 1-year return of 1.8%. Global share markets rebounded strongly in the month, reversing some of the falls seen in the last quarter of 2018. The US central bank indicated that it would wait and see before raising interest rates further, alleviating investor concerns that interest rates were rising into a slowing economy.

All underlying funds were positive for the month, with the growth funds in particular performing well. Global shares were strong, partly driven by better than expected company results in the US. Australian shares also performed well, despite further signs of weakening in the Australian economy and housing market. Market interest rates were slightly lower in January, but company bonds performed well, boosting returns.

The Fund remains cautiously positioned, with a significant reduction in exposure to Australian shares. The US economy looks to be steady but the rest of the world has slowed markedly, notably Europe and China. Asset valuations are still elevated (albeit off their peak) and the risk remains for slower growth ahead, although the risk of higher interest rates has been averted for now. In the next month, we look to company reporting season in Australia and NZ. This will give a read on how companies see the outlook for growth and give rise to stock picking opportunities in the funds.

Actual investment mix[1]



- Cash and Cash Equivalents 27.83%
- New Zealand Fixed Interest 8.15%
- International Fixed Interest 24.86%
- New Zealand Equities† 11.24%
- Australian Equities 0.34%
- International Equities 19.75%
- Listed Property 7.44%
- Other* 0.39%

Active Growth Fund

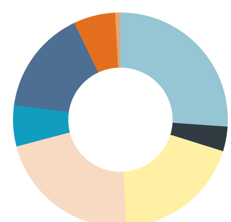
Portfolio Manager: Jonathan Windust

The Fund rose 3.0% in January as share markets rebounded with New Zealand, Australia and global markets up 2.0%, 3.9% and 7.2% respectively. Shares benefited from a general recovery in risk appetite and the US Federal reserve indicating they would be patient with regards to future interest rate rises.

Key positives were companies that had been sold heavily at the end of 2018 including Sundance Energy (+33.3%), US RV maker Thor industries (+25.2%) and US asset manager Apollo (+19.3%). Sundance benefited from the strong rise in the price of oil whilst Thor and Apollo benefited from improved sentiment in the US. During the month, the Fund added to holdings in Spark and Contact Energy which both provide attractive tax paid dividends and defensive earnings streams.

The short-term outlook for shares remains uncertain due to concerns over slowing global growth, trade wars, falling house prices in Australia and Brexit. Key positives include improved valuations, positive economic growth and relatively low interest rates. Reflecting short-term uncertainties, the strategy of the Fund is to remain cautious with a lower than average weight to shares and a higher weight to cash. We remain active within the Fund and will be focussing on the large number of companies reporting this month to isolate attractive investments for the Fund.

Please note this Fund is closed to new investors.



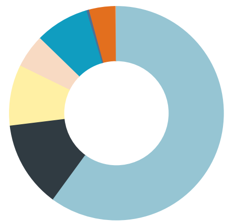
- Cash and Cash Equivalents 28.19%
- New Zealand Fixed Interest 3.61%
- International Fixed Interest 18.83%
- New Zealand Equities‡ 21.06%
- Australian Equities 6.05%
- International Equities 15.29%
- Listed Property 6.11%
- Other* 0.86%

†Includes unlisted equity holdings of 0.28% ‡Includes unlisted equity holdings of 2.20% *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]



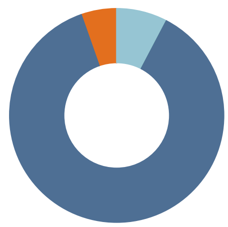
The Australian market recovered in January after a sharp sell-off in the final quarter of 2018. The Fund returned 1.0% for the month while maintaining a defensively positioned portfolio.

Our top performers for the month were Aristocrat Leisure (+12.8%) and Unibail-Rodamco-Westfield (+16.1%) which both rallied after being oversold in the December sell-off. Industry data points for Aristocrat continue to be positive and support our investment thesis, while Unibail's dividend yield is still attractive at these levels. Our gold mining investments in Newcrest Mining and Evolution Mining also continued to rally with the gold price. On the negative side, our various short positions that rallied in January gave up gains made over the previous months.

We remain cautious on the outlook for the Australian economy and exposed businesses as the housing market continues to weaken and impact other parts of the economy. February half year results reporting will provide some indication of what is in store for the year. We expect a good buying opportunity to emerge as slowing economic conditions are reflected in company earnings and share prices. In the meantime, we are focusing on individual companies and sectors that can perform well in this environment.

Global Equity Fund

Portfolio Manager: Felix Fok



The Fund gained 4.5% in January. Global markets rebounded strongly in January boosted by comments from the US Federal Reserve that they would pause their interest rate hikes for now.

The biggest positive contributor was Amazon (+14.4%) that bounced back after falling 25% in the 4th quarter 2018. Another strong performer was US software company Shotspotter (+54.5%). We discovered Shotspotter on a recent research trip to the US and can see the benefits of their subscription-based gunshot detection system that solves the problem of unreported gunfire.

The biggest detractors during the month were companies that outperformed when share markets were weak in the fourth quarter. Indian bank HDFC (-5.2%) and CME (-3.1%) gave back some of their recent gains.

Amongst Managers, MTX Sustainable Emerging Markets Leaders started 2019 with a bang (+9.7%) and healthcare specialist Wellington Global Healthcare fund also joined the party (+9.1%). Within our ETF allocation, our exposure to Brazil was the highlight with the ETF gaining 18.8% in January.

Overall, the economic picture has gradually improved and is showing signs of stabilisation, particularly in the US. However, concerns over geopolitical risks and slowing growth in China will likely result in continued high market volatility. The current backdrop is good for stock picking and the recent volatility has created opportunities in some of our favoured companies.

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Trans-Tasman Equity Fund

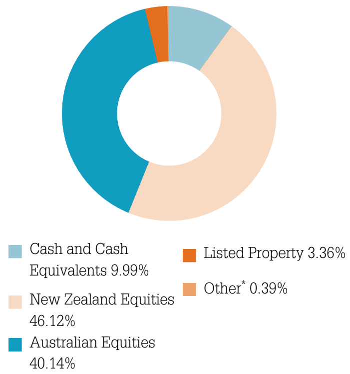
Portfolio Manager: Sam Trethewey & Wayne Gentle

The local equity market followed a global risk-on move in January after a weak end to 2018. The Fund returned 3.2% compared to the NZX 50 Gross Index return of 2.0% and ASX 200 return of 3.9%. Given the Fund has become more defensively positioned in recent months, it was pleasing to keep up with local markets via stock selection.

Key contributors to performance included a2 Milk (+13.5%), sales data from Chinese online sites remained strong; and, oil exposures including Woodside (+9.6%) and Sundance Energy (+33.3%) who were well supported on strengthening global crude prices. Spark was a key addition over the month as a large offshore seller provided an opportunity to increase our holding at an attractive price. We have conviction around the earnings outlook and believe the yield is compelling.

Looking ahead the Fund has retained defensive positioning via a bias towards the New Zealand market and an elevated cash level. We expect the local markets to remain volatile driven by global macro events like the US-China trade discussions and the performance of our local economies. The upcoming February earnings season will be an interesting gauge of how our companies are performing. We expect investors to focus heavily on outlook statements, particularly those who are exposed to the domestic economies given the changing local economic backdrop.

Actual investment mix[1]



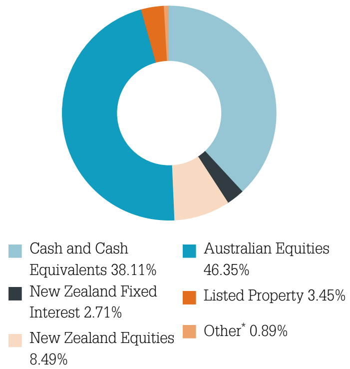
Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins

The market recovered some of its December quarter weakness in January. The Fund returned 3.6% for the month, against the Small Cap Industrial benchmark which rallied 4.9%.

The performance was led by CreditCorp (+17.2%) which delivered a strong first half result with upgraded full year earnings; Aristocrat (+12.8%) rallied after a positive industry data release indicted market share gains; and Afterpay (+28.3%) continues to surprise with the strong trajectory in Australia and the pace of penetration into the US. We continue to actively manage our position size in Afterpay, given it is one of the higher risk/reward positions in the Fund. Laggards included Costa (-25.5%) after it downgraded on higher supply and slower demand for its blue berries – we exited the position; Experience Co (-8.2%) on no new information; and AUB Group (-4.7%) which has been volatile leading into any Royal Commission implications in February.

We have modest expectations heading into reporting season given the current slowing domestic economy. Recent consumer and business confidence reports are challenging GFC lows. We will increase our overall equity exposure when we gain confidence that the downturn in Australian shares has more fully played out. In the meantime, we'll continue searching for attractive company specific opportunities that can prosper regardless of the broader economy.



Upcoming Distributions	Target	Payment Date
Trans-Tasman Bond Fund	0.75 cents (Quarterly)	20/03/2019
Global Bond Fund	0.75 cents (Quarterly)	20/03/2019
Conservative Fund	0.75 cents (Quarterly)	19/04/2019
Diversified Income Fund	1.6 cents (Quarterly)	20/02/2019
Trans-Tasman Equity Fund	1.5 cents (Biannually)	20/03/2019

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

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Fund Performance

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	Since Fund inception (p.a.)	Unit price $	Fund size $
Trans-Tasman Bond Fund*^	0.48%	3.83%	4.61%	5.38%	5.45%	1.1264	421.3 M
Global Bond Fund*^	1.44%	0.96%	—	—	4.03%	1.0207	339.0 M
Conservative Fund*	1.13%	2.91%	6.32%	—	6.10%	1.1135	233.5 M
Diversified Income Fund*	1.93%	5.32%	9.18%	10.47%	11.31%	1.6891	1,954.6 M
Balanced Fund	2.27%	1.85%	7.82%	9.09%	9.49%	2.1511	585.2 M
Active Growth Fund#	2.95%	3.03%	9.26%	9.98%	12.24%	3.4684	963.3 M
Australian Absolute Growth Fund	0.98%	—	—	—	—	1.0033	141.4 M
Global Equity Fund†	4.49%	-3.83%	5.41%	6.37%	6.69%	1.4460	442.7 M
Trans-Tasman Equity Fund*	3.15%	3.41%	13.19%	11.29%	10.63%	2.6027	316.6 M
Dynamic Fund	3.55%	-0.22%	9.84%	10.54%	11.36%	1.7594	219.3 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 Bond Fund: 1 February 2017, Australian Absolute Growth Fund: 1 March 2018.
*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)	1.98%	7.57%	14.68%	14.41%	16.85%
S&P/ASX 200 Accumulation Index (AUD)	3.87%	1.37%	10.09%	7.10%	9.43%
S&P/ASX 200 Accumulation Index (NZD)	3.98%	-2.58%	8.67%	6.54%	6.32%
MSCI World Index (local currency)*	7.24%	-4.27%	10.69%	8.25%	10.84%
MSCI World Index (NZD)*	4.20%	-0.28%	8.71%	10.28%	12.23%
S&P/NZX 90-Day Bank Bill Rate	0.19%	2.00%	2.15%	2.64%	2.66%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	1.06%	3.58%	2.78%	3.37%	3.26%
S&P/NZX NZ Government Bond Index	0.62%	5.82%	4.16%	5.30%	4.30%

*With net dividends reinvested

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

Trans-Tasman Bond Fund	Global Bond Fund	Conservative Fund	Diversified Income Fund	Balanced Fund
NZ Govt. Inflation Indexed 2% 2025 3.94%	BMO Float 2021 3.42%	ANZ 2.9% 2019 3.07%	Contact Energy 2.71%	iShares MSCI EAFE Index Fund 3.66%
Christchurch City 3.58% 2024 3.36%	RBC Float 2019 2.97%	ASB Bank 6.65% 2024 2.28%	ASB Bank 5.25% 2026 1.96%	Contact Energy 1.97%
NZLGFA 2.75% 2025 2.88%	Microsoft 2.875% 2024 2.38%	Summerset 4.2% 2025 2.17%	Meridian Energy 1.89%	Spark New Zealand 1.35%
Spark New Zealand 3.37% 2024 2.41%	Apple 3.7% 2022 2.16%	BNZ 3.648% 2023 2.15%	QBE 6.75% 2044 1.77%	a2 Milk Company 1.26%
IBRD 2.5% 2024 2.38%	Bank of America Float 2024 2.04%	Commonwealth Bank Float 2024 2.07%	ANZ Bank Float 2022 1.70%	Meridian Energy 1.15%
Summerset 4.2% 2025 2.34%	Commonwealth Bank Float 2024 1.89%	Kiwibank 3.1% 2019 1.94%	Westpac 4.695% 2026 1.62%	ANZ Bank Float 2022 0.96%
BNZ 3.648% 2023 2.33%	Intel 3.25% 2019 1.88%	Westpac Float 2021 1.91%	Argosy Property 1.49%	Transurban Group 0.96%
ANZ Bank Float 2022 2.25%	AT&T 3.45% 2023 1.67%	NZ Govt. Inflation Indexed 2% 2025 1.68%	Kiwi Property Group 1.44%	Vontobel Sust. EM Leaders 0.90%
ING Float 2021 2.09%	Amazon 2.8% 2024 1.62%	Christchurch City 3.58% 2024 1.44%	Spark New Zealand 1.35%	ASB Bank 5.25% 2026 0.88%
Suncorp-Metway 3% 2023 2.03%	Citigroup 5.95% 2023 1.51%	QBE 6.75% 2044 1.35%	Transurban Group 1.35%	Wellington Global Health Care 0.87%

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

Active Growth Fund	Australian Absolute Growth Fund	Global Equity Fund	Trans-Tasman Equity Fund	Dynamic Fund
Contact Energy 3.37%	CSL 3.29%	Vontobel Sust. EM Leaders 5.17%	a2 Milk Company 7.81%	Aristocrat Leisure 3.34%
iShares MSCI EAFE Min Vol ETF 3.19%	Aristocrat Leisure 2.91%	Wellington Global Health Care 5.05%	Spark New Zealand 5.36%	Collins Foods 3.07%
a2 Milk Company 1.99%	Transurban Group 2.82%	Wellington Strategic Euro 4.51%	Commonwealth Bank 4.04%	Credit Corp Group 2.99%
Spark New Zealand 1.91%	Contact Energy 2.77%	Euro Stoxx 50 ETF SPDR 2.64%	BHP Group 3.88%	Seven Group Holdings 2.59%
CYBG 8% 2049 1.66%	Unibail-Rodamco-Westfield 2.61%	Alphabet 2.44%	Fisher & Paykel Healthcare 3.51%	Contact Energy 2.46%
Westpac 5% 2027 1.50%	Newcrest Mining 2.39%	Health Care Select SPDR 2.42%	Auckland Airport 3.44%	EQT Holdings 2.45%
Delegat Group 1.44%	ANZ 2.97% 2019 2.25%	Financial Select SPDR 2.35%	Contact Energy 3.41%	AUB Group 2.38%
Unibail-Rodamco-Westfield 1.44%	Kiwibank 3.1% 2019 2.25%	Vanguard Com. Serv. ETF 2.16%	CSL 3.14%	Wellcom Group 2.32%
ANZ Bank Float 2022 1.36%	Evolution Mining 2.24%	Crown Castle 2.16%	Aristocrat Leisure 3.01%	Smartgroup Corp 2.27%
Transurban Group 1.30%	National Australia Bank 2.04%	Energy Select SPDR 1.85%	Westpac Banking Corp 2.94%	Australian Finance Group 2.15%

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 $29.0 million invested across our Unit Trust PIE Funds as at the end of January 2019.

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