



Milford KiwiSaver Plan Monthly Review January 2019

Market and Economic Review

The December 2018 quarter was a difficult one for investors, mainly because of President Trump's trade policies, negative news on the Chinese economy and rising interest rates.

During the three-month period the NZX 50 Gross Index was down 5.8%, the ASX 200 Accumulation Index dropped 11.7% and the MSCI World Net Total Return Index declined 14.4%. All figures are in NZ dollar terms.

Milford funds were impacted by the weak markets because most have exposure to Australian and global share markets. The Milford KiwiSaver Active Growth Fund was down 7.1% for the quarter, the Milford KiwiSaver Balanced Fund fell 5.3% and the Milford KiwiSaver Conservative was off a more modest 0.8% for the three-month period.

Although markets rebounded somewhat in the Christmas and New Year period, we expect volatility to continue in the months ahead.

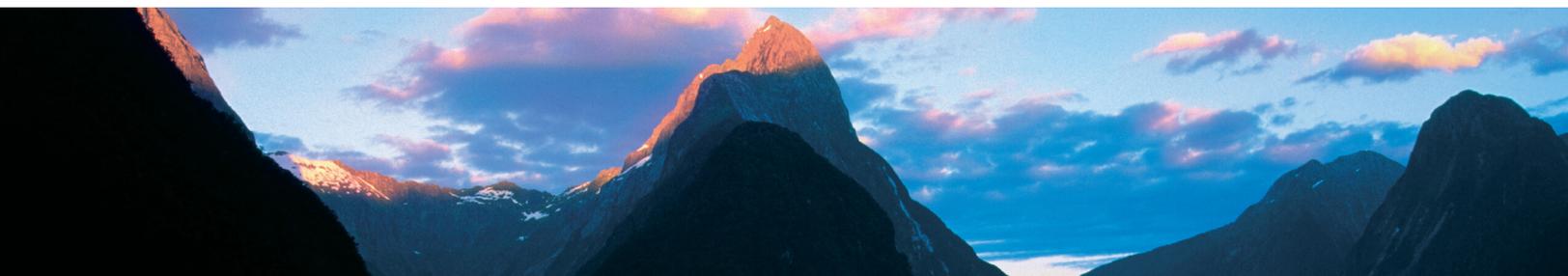
China's manufacturing sector is contracting and Apple has downgraded its revenue forecast, partly because of a tougher Chinese market. Reports indicate that there are 35 million vacant apartments in the country and it will be difficult to maintain the current level of construction activity – which has been a major contributor to the country's economic growth - as the great Chinese migration from rural areas to the cities has come to an end.

The trade war between the United States and China is also a concern as free trade has been a major driver of global economic growth in recent decades. President Trump is taking a tough approach to this issue although any further increase in trade tension is not in the best interest of either the US or China.

On the positive side, unemployment rates continue to decline in most countries and wages are beginning to pick up. For example, the unemployment rate is only 3.9% in New Zealand, 5.1% in Australia, 3.9% in the United States and 4.1% in the United Kingdom.

Fortunately, inflation pressures remain low which will enable the US Federal Reserve Board – and other central banks – to stop raising interest rates if the trade war escalates and the Chinese economy shows further signs of easing.

In conclusion, Milford's portfolio managers will continue to take a cautious approach until there are more positive indicators on the Chinese economy and the US/China trade dispute.



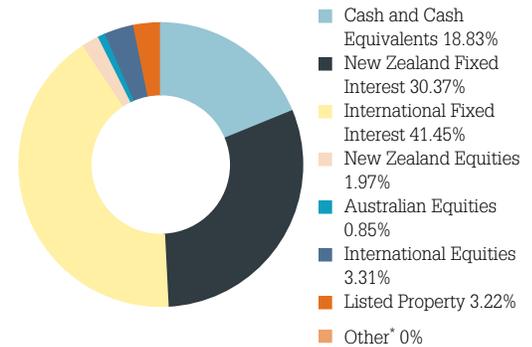
Conservative Fund

Portfolio Manager: Paul Morris

Investor confidence deteriorated further in December on increasing evidence of slowing growth. The Fund has been defensively positioned cognisant of elevated risks, holding more cash and fixed interest against less shares. In December's risk averse environment global shares were materially weaker. This detracted from the Fund's return even though its exposure is much reduced. On the other hand, both corporate bonds (most of the fixed income allocation) and Australasian income shares (the Fund's other main share exposure) enjoyed strong months, supported by falling market interest rates as investors reigned in expectations for central bank rate rises. The result was a Fund return of 0.1% for the month, contributing to a 2018 return of 2.4%.

Looking forward, the risks to economic growth have increased, in part due to geopolitical threats. Therefore, near term volatility is likely to remain elevated as markets adjust to this outlook. In contemplating the Fund's conservative profile, it remains prudent to retain cautious positioning. We will however opportunistically deploy part of the Fund's elevated cash on attractively priced bonds and/or shares if valuations and/or prospects become compelling. Over the medium-term, we still believe active management will enable a moderate return, albeit we reiterate that (as per 2018) this may be lower than recent years.

Actual investment mix¹



Balanced Fund

Portfolio Manager: Mark Riggall

The Fund fell 1.3% in December, with a positive 1-year return of 0.5%. Global share markets continued to fall as investor confidence deteriorated sharply, particularly in the US. Weakening global economic data and a US central bank that continued to hike interest rates further impacted the already fragile sentiment. For the Balanced Fund, diversification was a benefit as falling market interest rates caused interest rate sensitive stocks as well as bonds to perform well, delivering positive returns in December. A falling NZ dollar helped partially mitigate losses seen on foreign shares. Australian and NZ shares were particularly sheltered in December, but global shares were hit hard and account for the bulk of the negative performance this month.

The Fund is cautiously positioned, with nearly 25% in cash, lower share market positions and increased offshore currency positions. In terms of outlook, global share markets have sharply repriced lower and are now moderately inexpensive, although the economic growth outlook is increasingly uncertain. The Australian economy remains a concern due to a falling housing market and an indebted consumer, consequently the Fund has removed much of its exposure to Australian shares. Global markets will continue to see increased volatility, both up and down as the extent of the slowdown in economic growth is revealed.



Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund fell 1.8% during December and returned 1.6% for the 2018 year. Global share markets remained volatile and ended the month and year down 7.9% and 7.4% respectively. Share markets fell due to concerns over slowing global growth, Brexit, trade wars and falling house prices in Australia. On a more positive note, the Milford Trans-Tasman Bond (+0.7%) and Global Bond (+0.3%) funds delivered positive returns for the month as investors looked for the stability of fixed yields.

Australian and New Zealand share markets were largely flat for the month benefiting from the good performance of more defensive sectors such as utilities and real estate companies. During the month, we reduced our exposure to the Australian share market given concerns over the impact of falling house prices, slowing Chinese growth and political uncertainty.

Looking forward we believe markets are likely to remain volatile given market uncertainties although, following falls, market valuations are now more attractive particularly relative to low returns on cash. Importantly, whilst we expect growth to slow, we believe it will remain at reasonably healthy levels. Given uncertainties, the strategy of the Fund is to have a lower than average weight to shares and higher weight to cash. We remain active and will look to deploy cash as uncertainties reduce or we find attractively valued investments.



[†]Includes unlisted equity holdings of 0.25% [†]Includes unlisted equity holdings of 2.09% *Other includes currency derivatives used to manage foreign exchange risk.

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

Milford KiwiSaver Plan Monthly Review as at 31 December 2018

Fund Performance

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	Since Fund inception (p.a.)	Unit price \$	Fund size \$
Conservative Fund	0.10%	2.38%	5.88%	7.95%	9.04%	1.6924	81.6 M
Balanced Fund	-1.33%	0.49%	6.60%	8.88%	9.55%	2.1451	243.0 M
Active Growth Fund	-1.80%	1.62%	7.65%	10.29%	12.18%	3.4155	1,068.2 M

For details of how investment performance is calculated, and returns at each PIR please see www.milfordasset.com/funds-performance/view-performance#tab-performance.

Performance figures are after total Fund charges* have been deducted and at 0% PIR.

Please note past performance is not a guarantee of future returns.

*Total Fund charges do not include the \$36 p.a. Administration and Registry fee.

Inception dates for the Funds: Active Growth Fund: 1 October 2007[^], Balanced Fund: 1 April 2010, Conservative Fund: 1 October 2012.

[^]This is based on the performance of the AonSaver AMT Milford Aggressive Fund until 31 March 2010 and the Milford KiwiSaver Active Growth Fund from 1 April 2010.

Key Market Indices

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)
S&P/NZX 50 Gross Index (with imputation credits)	-0.08%	6.04%	13.00%	14.62%	16.64%
S&P/ASX 200 Accumulation Index (AUD)	-0.12%	-2.84%	6.69%	5.63%	9.61%
S&P/ASX 200 Accumulation Index (NZD)	-1.34%	-7.21%	6.23%	4.91%	6.16%
MSCI World Index (local currency)*	-7.86%	-7.38%	6.15%	6.04%	10.40%
MSCI World Index (NZD)*	-5.35%	-3.18%	7.04%	8.93%	11.43%
S&P/NZX 90-Day Bank Bill Rate	0.19%	1.97%	2.16%	2.65%	2.66%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	1.44%	1.76%	2.91%	3.44%	3.25%
S&P/NZX NZ Government Bond Index	1.04%	4.65%	4.52%	5.35%	4.19%

*With net dividends reinvested

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

Conservative Fund	Balanced Fund	Active Growth Fund
Westpac Float 2021 2.39%	iShares MSCI EAFE Index Fund 3.52%	iShares MSCI EAFE Min Vol ETF 3.26%
Summerset 4.2% 2025 2.08%	Contact Energy 1.90%	Contact Energy 3.18%
BNZ 3.648% 2023 2.07%	a2 Milk Company 1.21%	a2 Milk Company 1.94%
Kiwibank 3.1% 2019 1.91%	Meridian Energy 1.12%	CYBG 8% 2049 1.65%
ANZ 2.91% 2019 1.49%	iShares MSCI EAFE Min Vol ETF 0.95%	Delegat Group 1.52%
Christchurch City 3.58% 2024 1.35%	ASB Bank 5.25% 2026 0.89%	Alphabet 1.34%
NZLGFA 2.75% 2025 1.27%	Spark New Zealand 0.87%	Westpac 5% 2027 1.24%
OBE 6.75% 2044 1.23%	Vontobel Sust. EM Leaders 0.87%	Unibail-Rodamco-Westfield 1.15%
Investore Property 4.40% 2024 1.19%	Wellington Global Health Care 0.85%	Vanguard Intl Select Excl Index Fund 1.15%
NZLGFA 6% 2021 1.16%	Transurban Group 0.85%	Bluescope Steel 1.07%

Note: Fixed interest securities are reported in the following format: Issuer name, interest (coupon) rate, maturity year, size of fund holding (as % of total portfolio).

Milford staff have approximately \$9.4 million invested in the Milford KiwiSaver Plan as at the end of December 2018.

Milford KiwiSaver Plan Monthly Review

January 2019

Milford leading the pack on KiwiSaver investment returns

For most investors, KiwiSaver is a long-term investment and your choice of provider can make a big difference to your retirement. This is because there can be big differences between KiwiSaver providers and the after-fee returns they're generating for their clients.

Australian investment research company [SuperRatings](#) have recently published research to reveal which KiwiSaver funds are providing the highest 'net benefit' to members. In other words, which funds are delivering the highest returns to their clients after deducting fund fees and tax.

We are pleased to report our Active Growth Fund is the best-performing KiwiSaver growth fund in the country on a seven-year basis, delivering a net benefit in excess of \$30,000 for a typical investor. This is over 45 per cent more return after fees and tax than the second-highest performing fund.

In addition to this, Milford's KiwiSaver [Balanced Fund](#) is the best-performing KiwiSaver balanced fund on a seven-year basis. Note, Milford's KiwiSaver Conservative Fund has also performed well against its peers, however as it doesn't yet have a seven-year history it wasn't included in these results.

Growth Funds Seven-Year Net Benefit Outcomes* - Top 10

Scheme name	Fund	Net Benefit
Milford KiwiSaver Plan	Active Growth Fund	\$30,796
Aon KiwiSaver Scheme	Growth Fund****	\$20,999
Kiwi Wealth KiwiSaver Scheme	Growth	\$20,040
OneAnswer KiwiSaver Scheme	Growth Fund	\$19,952
ANZ KiwiSaver Scheme	Growth Fund	\$19,757
ANZ Default KiwiSaver Scheme	Growth Fund	\$18,522
Westpac KiwiSaver Scheme	Growth Fund	\$16,977
ASB KiwiSaver Scheme	Growth Fund	\$16,963
Fisher Funds KiwiSaver Scheme	Growth Fund	\$16,224
Fisher Funds TWO KiwiSaver Scheme	Growth Fund	\$15,547

Source: SuperRatings press release 2 Nov 2018 found [here](#). *Net Benefit outcomes are calculated over the seven years to 31 March 2018 and assume a contribution rate of 3.00%, contribution tax of 17.50%, salary of \$50,000 p.a. and a starting balance of \$20,000. ****Russell LifePoints@ Growth Fund. SuperRatings only publicly released the top-10 best performing funds. Please note past performance is not a guarantee of future performance.

We acknowledge the trust you place in us to manage your hard-earned savings, and we will continue to work hard to manage risk and produce strong long-term returns.



Consumer NZ People's Choice Award – KiwiSaver



Morningstar Fund Manager of the Year
– KiwiSaver Category, NZ



FundSource 2018 KiwiSaver Manager of the Year

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