

# Conservative Fund

Portfolio Investment Entity

## Quarterly Fact Sheet as at 31 December 2018



### Portfolio Managers



**Paul Morris**  
Portfolio Manager



**Mark Riggall**  
Co-Portfolio Manager

Investor confidence deteriorated during the final quarter of the year. Slowing economic growth, in the context of reduced monetary policy support, precipitated a spike in volatility across asset classes as investors reacted to an increasingly uncertain return outlook.

Cognisant of building risks (e.g. geopolitics, China slowdown) the Fund was cautiously positioned. This translates to more cash and fixed interest against a lower share exposure. The fixed interest allocation remains primarily to corporate bonds but we have been improving the average credit rating. During the quarter the Fund's positioning became even more defensive as we increased cash, reduced further the share exposure, continued to improve the corporate bonds' quality and slightly reduced the Fund's limited interest rate exposure.

This proved prescient as during the quarter Australasian and global shares were significantly weaker, albeit as our Australasian share allocation is focussed in income shares (which outperformed growth shares) the negative impact was somewhat cushioned. As the NZ dollar was marginally stronger the Fund's small foreign currency exposure provided no offsetting return benefit. Fixed interest contributed a moderate return in the quarter as expectations for interest rate increases fell on the lower growth outlook, lifting bond prices. That said, we acknowledge the Fund's corporate bonds underperformed the strength seen in government bonds, even if this was significantly less notable in Australasia versus offshore. We continue to believe that, as per history, corporate bonds will outperform government bonds over the Fund's recommended investment timeframe.

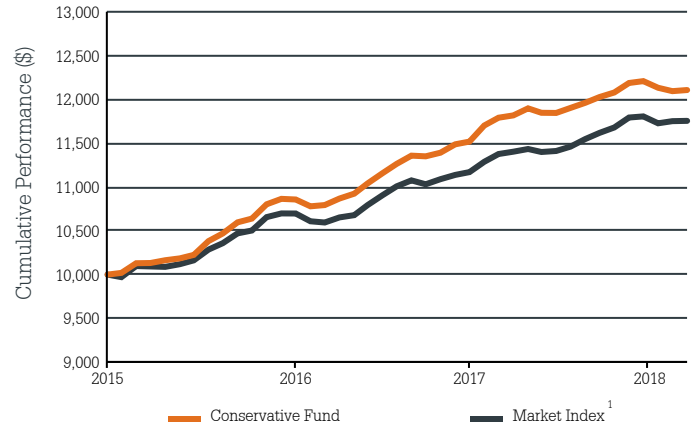
2018 started with global synchronised growth, the threat of inflation, and expectations for rising central bank interest rates. Looking forward, a more uncertain growth outlook and the ongoing absence of inflation (helped by lower energy prices) mean central bank policy no longer appears on a pre-set tightening path and is increasingly dependent on incoming data.

For now, considering the number of known risks, it is prudent to retain the Fund's cautious positioning. Nevertheless, the economic growth, company earnings and interest rate outlooks remain fluid. Fund positioning will therefore need to be nimble. That should suit our active management approach across asset allocation, security selection and risk management; all the while remaining cognisant of the Fund's conservative return objective.

We will look to 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, but we reiterate that (as per 2018) this may be lower than recent years.

### Cumulative Fund Performance

(after fees and before tax)



Assumes the growth of \$10,000 invested at the Fund's inception date, and assumes reinvestment of distributions.

### Key Fund Facts

<b>Objective<sup>2</sup></b>	Moderate returns and protect capital over a minimum of three years
<b>Description</b>	Diversified fund that primarily invests in fixed interest securities, with a moderate allocation to equities
<b>Target Allocation</b>	82% Income Assets / 18% Growth Assets
<b>Neutral FX Exposure</b>	0%
<b>Net Asset Value (NAV)</b>	\$228.3 M
<b>Yield<sup>3</sup></b>	3.65%
<b>Average Credit Rating</b>	A-
<b>Duration</b>	1.75 years
<b>Buy-sell Spread</b>	None

<b>Inception Date</b>	1 September 2015
<b>Current Distribution</b>	0.75 cents per unit (Quarterly)
<b>Benchmark</b>	Not applicable
<b>Base Fund Fee<sup>4</sup></b>	0.95%
<b>Performance Fee</b>	Not applicable
<b>Total Fund Fees<sup>5</sup></b>	0.95%
<b>Risk Indicator</b>	<div style="display: flex; justify-content: space-between;"> <span>Lower risk</span> <span>Higher risk</span> </div> <div style="text-align: center;"> </div> <div style="display: flex; justify-content: space-between;"> <span>Potentially lower returns</span> <span>Potentially higher returns</span> </div>

## Investment Performance after fees as at 31 December 2018<sup>6</sup>

Unit Price: \$1.1085

	3 Months	6 Months	1 year	3 years (p.a.)	5 years (p.a.)	Since inception (p.a.)
Milford Conservative Fund (Gross Of Tax)	-0.83%	0.67%	2.45%	6.00%	-	5.90%
After Tax 10.50%	-0.84%	0.54%	2.20%	5.44%	-	5.37%
After Tax 17.50%	-0.85%	0.45%	2.03%	5.07%	-	5.02%
After Tax 28.00%	-0.86%	0.32%	1.78%	4.52%	-	4.50%
Market Index <sup>1</sup>	-0.43%	1.18%	3.09%	5.23%	-	4.97%

### Top Equity Holdings

Holdings	% of Fund's NAV
Contact Energy	0.62%
Meridian Energy	0.43%
Argosy Property	0.35%
Kiwi Property Group	0.33%
Transurban Group	0.30%
Aventus Retail Property Fund	0.26%
Spark New Zealand	0.22%
Stride Property	0.22%
Goodman Group	0.21%
Unibail-Rodamco Westfield	0.21%

### Current Asset Allocation

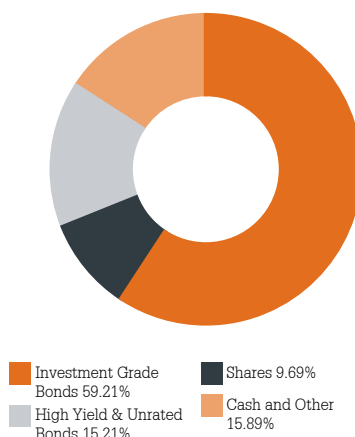
	Actual Investment Mix	Neutral Investment Mix
Cash and Cash Equivalents	15.89%	6.00%
New Zealand Fixed Interest	31.47%	35.00%
International Fixed Interest	42.95%	41.00%
New Zealand Equities	2.04%	3.00%
Australian Equities	0.88%	3.00%
International Equities	3.43%	8.00%
Listed Property	3.34%	4.00%
Other	0.00%	0%

### Top Fixed Interest Holdings

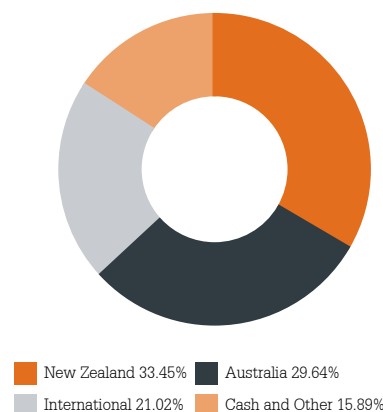
Holdings	% of Fund's NAV
Westpac Banking Corporation Float 2021	2.48%
Summerset Group Holdings 4.2% 2025	2.16%
Bank of New Zealand 3.648% 2023	2.15%
Kiwibank 3.1% 2019	1.98%
ANZ Bank 2.91% 2019	1.54%
Christchurch City Holdings 3.58% 2024	1.40%
New Zealand Local Government Funding Agency 2.75% 2025	1.31%
OBE Insurance Group 6.75% 2044	1.28%
Investore Property 4.40% 2024	1.23%
New Zealand Local Government Funding Agency 6% 2021	1.20%

Note: Fixed interest securities are reported in the following format: Issuer name, interest (coupon rate), maturity year.

### Fund Portfolio Mix



### Country Exposure



1. The Fund does not have a performance benchmark, hence a market index has been included for comparison purposes. See the Statement of Investment Policy and Objectives for more details on the market index. The market index is a blend of indices that represent the Fund's neutral asset allocation. Note the Fund's investment strategy is designed to achieve its objective, which may mean that at times, the returns of the market index may not be an appropriate measure. 2. After the base fund fee but before tax. 3. Yield (before tax and fees) for underlying investments in the Fund. 4. Where applicable, the Base Fund Fee includes an estimate of non-related underlying fund charges. 5. The Total Fund Fees comprise the Base Fund Fee and any estimated Performance Fee. Please refer to the Product Disclosure Statement for more information as to how these are calculated. 6. Includes the reinvestment of distributions. Please note past performance is not a guarantee of future returns.

Please refer to the 'Glossary for the Quarterly Fact Sheet' at [milfordasset.com/fact-sheet](http://milfordasset.com/fact-sheet) for more information about the data published within this document.

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