

Global Bond Fund

Portfolio Investment Entity

Quarterly Fact Sheet as at 31 December 2018



Portfolio Managers



Paul Morris
Portfolio Manager



David Lewis
Co-Portfolio Manager

The final quarter of 2018 was notable for a sharp deterioration in investor confidence. Slowing global economic growth and a spike in volatility across financial markets precipitated reduced expectations for higher central bank cash rates. This benefited the safe haven of highly rated, low risk, government bonds as prices increased reflecting lower interest rates. The Fund however remains primarily invested in corporate bonds. 2018 was one of the weakest years for corporate bonds since the Global Financial Crisis, the weakest relative to government bonds since 2008. Nonetheless, we believe that over the Fund's recommended investment timeframe corporate bonds will outperform, as they have in aggregate since the Fund's inception.

The threat to global growth built during the year, this included: geopolitics (tariff wars), China slowdown, fading impact of US tax cuts, softer residential property markets, Brexit and the global drift to populism. More cautious Fund positioning reflected these risks and acknowledged expensive valuations across many debt markets coupled with waning central bank monetary policy support. That continued in the quarter as we increased the average credit rating of bond holdings, reduced average maturity, increased the liquidity of holdings and reduced exposure to subordinated ranking debt, which resulted in increased cash.

2018 started with global synchronised growth, an inflationary threat, and expectations for rising central bank interest rates. Looking forward now, 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 has become increasingly dependent on incoming data.

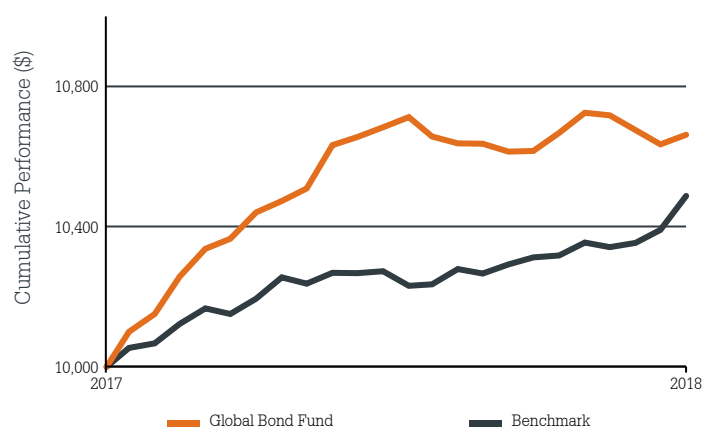
Fund positioning will therefore need to be nimble which should suit our active management approach. Valuations have improved in many debt markets, but elevated risks make it prudent to retain cautious positioning. Near-term the return outlook has improved but further out it is less certain.

Short-term we anticipate some recovery from corporate bond underperformance but remain wary of the volumes of corporate and government funding needs in the context of less central bank buying. This may require higher interest rates in some debt markets to attract demand. We also note that historically interest rates remain low in absolute terms and corporate bond valuations relative to government bonds remain high. Should growth recover, central bank interest rate increases become possible. If growth falls away then elevated levels of leverage in some debt markets could be problematic.

We will therefore continue to limit interest rate and credit exposure and hold elevated levels of cash, albeit the latter is available to deploy selectively in attractively priced new issues.

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

Objective¹	Protect capital and generate a positive NZD-hedged return that exceeds the relevant benchmark over a minimum of three years
Description	Primarily invests in global fixed interest securities
Target Allocation	100% Income Assets / 0% Growth Assets
Neutral FX Exposure	0%
Net Asset Value (NAV)	\$334.5 M
Yield²	4.30%
Average Credit Rating	BBB+
Duration	3.02 years
Rating Categories	Inv.Grade 72% / High Yield 14% / Unrated 3%

Inception Date	1 February 2017
Current Distribution	0.75 cents per unit (Quarterly)
Benchmark	Bloomberg Barclays Global Aggregate 3-5 Year Total Return Index Value Hedged USD (100% NZD-hedged)
Base Fund Fee³	0.95%
Performance Fee	Not applicable
Total Fund Fees⁴	0.95%
Risk Indicator	<div style="display: flex; justify-content: space-between;"> Lower risk Higher risk </div> <div style="text-align: center;"> <p>1 2 3 4 5 6 7</p> </div> <div style="display: flex; justify-content: space-between;"> Potentially lower returns Potentially higher returns </div>

Investment Performance after fees as at 31 December 2018⁵

Unit Price: \$1.0063

	3 Months	6 Months	1 year	3 years (p.a.)	5 years (p.a.)	Since inception (p.a.)
Milford Global Bond Fund (Gross Of Tax)	-0.52%	0.43%	-0.20%	-	-	3.44%
After Tax 10.50%	-0.46%	0.39%	-0.18%	-	-	3.07%
After Tax 17.50%	-0.43%	0.36%	-0.16%	-	-	2.83%
After Tax 28.00%	-0.37%	0.31%	-0.14%	-	-	2.47%
Benchmark	1.41%	1.70%	2.09%	-	-	2.52%

Top Fixed Interest Holdings

Holdings	% of Fund's NAV
Royal Bank of Canada Float 2019	3.00%
Microsoft Corporation 2.875% 2024	2.45%
Bank of Montreal Float 2021	2.35%
Apple 3.7% 2022	2.18%
Intel Corporation 3.25% 2019	1.90%
AT&T 3.45% 2023	1.68%
Amazon 2.8% 2024	1.66%
Vodafone Group 3.1% 2079	1.52%
Dell International Float 2023	1.49%
Citigroup 5.95% 2023	1.48%
Goodman Property Group 1.375% 2025	1.47%
CRH Finance 3.875% 2025	1.43%
Downer Group Finance 4.50% 2022	1.39%
Sprint Spectrum 4.738% 2025	1.38%
QBE Insurance Group 6.75% 2044	1.35%
ING Group Float 2021	1.31%
JPMorgan 5.15% 2023	1.29%
Optus Finance 3.25% 2022	1.29%
Westpac Banking Corporation Float 2021	1.29%
JPMorgan Float 2024	1.25%

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

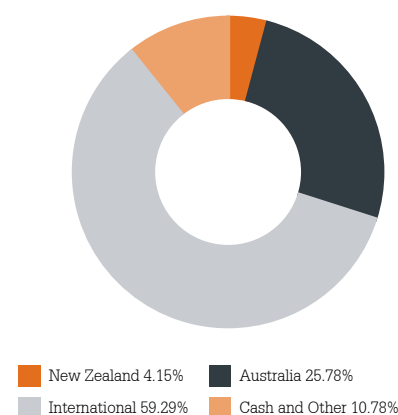
Current Asset Allocation

	Actual Investment Mix	Neutral Investment Mix
Cash and Cash Equivalents	10.78%	5.00%
New Zealand Fixed Interest	6.01%	0%
International Fixed Interest	83.21%	95.00%
New Zealand Equities	0.00%	0%
Australian Equities	0.00%	0%
International Equities	0.00%	0%
Other	0.00%	0%

Sector Exposure

Allocation	Weight %
Financials	34.29%
Information Technology	12.53%
Consumer Discretionary	9.02%
Communication Services	8.83%
Industrials	7.73%
Real Estate	5.82%
Materials	5.41%
Utilities	2.23%
Other Sectors	3.36%
Cash and Other	10.78%

Country Exposure



1. After the base fund fee but before tax. 2. Yield (before tax and fees) for underlying investments in the Fund. 3. Where applicable, the Base Fund Fee includes an estimate of non-related underlying fund charges. 4. 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. 5. Includes the reinvestment of distributions. Returns prior to 1 March 2018 are from when the Fund was previously offered to wholesale investors only and have been adjusted for the current Total Fund Fees. 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 for more information about the data published within this document.

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