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Milford KiwiSaver Plan 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 KiwiSaver funds participated in January's recovery with the Active Growth Fund appreciating 2.9%, Balanced Fund 2.2%and Conservative Fund 1.1%.

For the twelve months to January 2019, the Active Growth Fund appreciated 3.5%, Balanced Fund 1.9% and Conservative Fund 2.8%. These lower annual returns reflect the sharp downturn in markets over the last three months of 2018.

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.

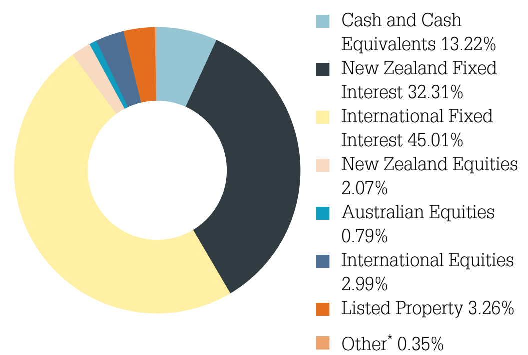
Our investment team believes that economic growth will slow in New Zealand and Australia over the remainder of the year and the United States economic expansion has peaked. Consequently, we continue to take a cautious short-term view on share markets although the sharp downturn in the December 2018 quarter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

Milford KiwiSaver Plan Monthly Review as at 31 January 2019

Conservative Fund

Portfolio Manager: Paul Morris

Actual investment mix[1]



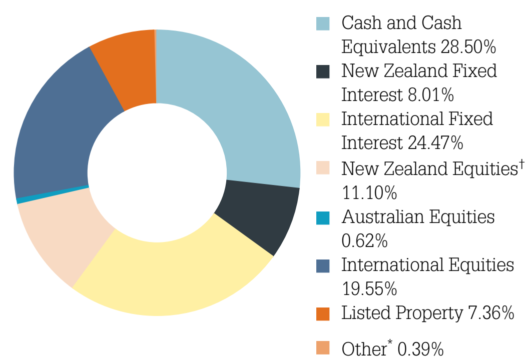
A shift in global central banks away from higher interest rates provided relief for bond and share markets. The US, European and Chinese central banks adopted more cautious stances, due to weaker growth and increased market volatility. This underpinned strength across the fixed interest and share asset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

Irrespective of 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.

Balanced Fund

Portfolio Manager: Mark Riggall



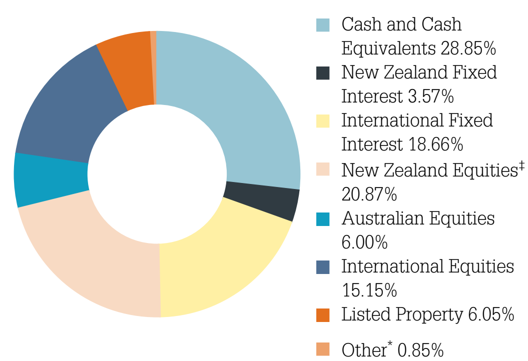
The Fund returned 2.2% in January, with a 1-year return of 1.9%. Global share markets rebounded strongly in the month, reversing some of the falls seen in the last quarter of 2018. The US central bank indicated that it would wait and see before raising interest rates further, alleviating investor concerns 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.

Active Growth Fund

Portfolio Manager: Jonathan Windust



The Fund rose 2.9% 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.

†Includes unlisted equity holdings of 0.27% ‡Includes unlisted equity holdings of 2.18% *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 KiwiSaver Plan Monthly Review as at 31 January 2019

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	1.10%	2.83%	6.20%	8.08%	9.10%	1.7110	86.6 M
Balanced Fund	2.24%	1.89%	8.01%	9.42%	9.73%	2.1931	250.8 M
Active Growth Fund	2.95%	3.50%	9.58%	10.24%	12.37%	3.5160	1,114.1 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)	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

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

Conservative Fund	Balanced Fund	Active Growth Fund
ANZ 2.9% 2019 3.01%	iShares MSCI EAFE Index Fund 3.52%	Contact Energy 3.34%
ASB Bank 6.65% 2024 2.24%	Contact Energy 1.95%	iShares MSCI EAFE Min Vol ETF 3.16%
Summerset 4.2% 2025 2.12%	Spark New Zealand 1.34%	a2 Milk Company 1.97%
BNZ 3.648% 2023 2.11%	a2 Milk Company 1.24%	Spark New Zealand 1.89%
Commonwealth Bank Float 2024 2.03%	Meridian Energy 1.14%	CYBG 8% 2049 1.64%
Kiwibank 3.1% 2019 1.90%	Transurban Group 0.95%	Westpac 5% 2027 1.49%
Westpac Float 2021 1.87%	ANZ Bank Float 2022 0.95%	Delegat Group 1.43%
NZ Govt. Inflation Indexed 2% 2025 1.65%	Vontobel Sust. EM Leaders 0.89%	Unibail-Rodamco-Westfield 1.43%
Christchurch City 3.58% 2024 1.41%	Wellington Global Health Care 0.87%	ANZ Bank Float 2022 1.35%
QBE 6.75% 2044 1.32%	ASB Bank 5.25% 2026 0.87%	Transurban Group 1.29%

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 $9.7 million invested in the Milford KiwiSaver Plan as at the end of January 2019.

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Milford continues to be a top KiwiSaver performer

The latest Morningstar KiwiSaver Survey, which is for the period ended December 2018, shows that the Milford KiwiSaver funds continue to be top performers in the three main sector groups.

Milford KiwiSaver fund performances versus peer group

Sector	1-year	3-years	5-years	10-years
Growth	**1st** out of 27	**1st** out of 23	**1st** out of 21	**1st** out of 17
Balanced	**2nd** out of 26	**1st** out of 20	**1st** out of 18	n/a
Conservative	**2nd** out of 21	**1st** out of 19	**1st** out of 13	n/a

The Milford Balanced and Milford Conservative funds don't have 10-year records.
To see the full Morningstar KiwiSaver Survey December 2018 Quarter report, click here.

The Milford KiwiSaver Active Growth Fund was the best performing fund overall for the ten years ended December 2018.

We are pleased with this performance but our investment team is not resting its laurels. Past performance is not a guarantee of future performance, however we believe it is a really good indicator of how skilled your KiwiSaver provider is at investing your money over time.

We believe that we have established a strong and experienced investment team, including six investment professionals in Sydney, that should enable Milford to continue to be a top KiwiSaver performer.

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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