Milford Investment Funds Guide

Investment Funds make it easy to become an investor. You get the benefits of a professionally managed portfolio, without having to do all the detailed work yourself.

MILFORD
INVESTMENT FUNDS

milfordasset.com

This guide is intended to provide you with general information about the Milford Investment Funds range of Investment Funds. It does not take into account your objectives, financial situation or needs. Please read the Milford Investment Funds Product Disclosure Statement as issued by Milford Funds Limited at milfordasset.com. Before investing you may wish to seek financial advice. Milford's Financial Advice Disclosure Statement is available at milfordasset.com/getting-advice.

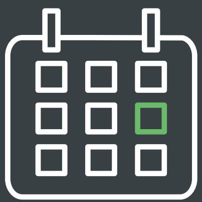
This document aims to give you an overview of what an Investment Fund is, and how it works. It will answer a range of common questions, and provide some insights into Milford's Investment Fund offering.

The first step

Before you start your investment journey, you want to ensure you're setting yourself up for success. Here are three key things worth considering:

1. Your goals

It's very important to think about your goals. What are you trying to achieve with your investment? A few common ones are saving for a first home, saving for retirement or your child's education. For those who are already retired, your goal could be to generate an income to help fund your lifestyle.



2. Your timeframe

Once you know your goal, you should have a good idea of your investment timeframe. This is the amount of time you plan to keep your money in an Investment Fund before making withdrawals. For those saving for retirement, you will generally have a longer timeframe. For those already in retirement or those with short term goals, you will generally have a shorter investment timeframe.

3. Your risk tolerance

Once you know your goal and your timeframe, the next thing worth considering is your tolerance for risk. This is often referred to as your 'risk profile'. As you'll see throughout this document, Investment Funds go up and down in value. So, you don't want to be in a fund that's taking on more risk than you're comfortable with, especially in the short term. Our quick online tool can help you identify your risk profile milfordasset.com/tools-guides.

Investing your money can be a great way to provide for your future or grow your savings for a particular life goal.

Most people have heard of term deposits and shares. While term deposits are generally well understood, they may not provide the level of returns and flexibility an investor is seeking. The share (or stock) market, on the other hand, offers the potential for higher returns, but comes with higher risk. Investing directly in the share market yourself requires more time, knowledge and confidence.

For a fuller explanation of the features, costs, risks and benefits from investing in Investment Funds please read the Milford Investment Funds Product Disclosure Statement.

What is an Investment Fund?

Instead of investing directly in the share market yourself, you can put your money into a professionally managed Investment Fund. In this scenario, your money is pooled with other investors' money and spread across different kinds of investments (or assets).

A fund manager chooses the investments on behalf of the investors. Each investor owns a portion of the total fund in the form of 'units'.

Different Investment Funds offer differing risk and return profiles to suit specific risk appetites of investors. Each fund will have a set of objectives and rules that determine which assets the fund will invest in (shares, bonds, listed property and cash), the expected level of risk and return, and the costs of managing it.

When you join an Investment Fund, you become an investor in some of the very best local and international companies - brands that you may well already use on a daily basis.

It is important to bear in mind that no particular returns are guaranteed with an Investment Fund and it is possible that you may receive back less than you invested.

Benefit from expert research, analysis and insights.

The beauty of an Investment Fund is that you don't need to have done a lot of research or to have extensive knowledge of share markets to know your money is likely to be invested in the best places.

Your fund manager has a team of investment experts who devote considerable time to review, research, and analyse companies and market trends. This means you benefit from years of combined financial expertise and experience with very little effort of your own!

In saying that, Investment Funds can be a good introduction to investing, and a great opportunity to expand your personal knowledge and understanding.

You go to a dentist to fix your teeth and you use a mechanic to service your car. So why wouldn't you use an investment expert with a proven track record to manage your investments?

Risk vs Return

Any type of investing involves risk, and it's important to understand the concept of 'risk versus return' before you invest.

There are different types of Investment Funds that suit different types of investment goals, and different appetites for risk. These funds are often named after a particular risk category and indicate how the fund is expected to perform over time, such as 'Conservative', 'Balanced' or 'Growth'.

The type and mix of assets the fund invests in will determine the expected level of risk and return for investors. If the fund contains more growth assets like shares or property, it will come with a higher level of risk. This means the performance may go up and down to a higher degree in the short term (this is called volatility), but returns may go up to a higher degree in the long term. If the fund contains more income assets like bonds or cash, then the risk is lower, and the performance is likely to be more stable. Of course, the returns are likely to be lower over the long term too though.

Risk and return are interrelated. It is important you understand the risks and choose a fund that aligns with your risk tolerance. Access our expert digital advice to help guide you on your way milfordasset.com/digital-advice-tools

When it comes to investing, there is always an element of risk.

Past performance is not a reliable indicator of future performance.

When choosing an investment partner, people often only look at past returns, failing to consider the risk factor that may impact future returns.

Some funds that have performed well may be more exposed to risk than you realise. It's important for your fund manager to have the necessary protocols and strategies in place to handle dramatic, unforeseen events affecting investment markets.

That's why it's so important to understand exactly what you're investing in, or to seek the expert input of a trusted financial adviser.

The power of diversification

Diversification is a crucial investment strategy that reduces your exposure to risk. In other words — don't put all your eggs in one basket.

The risk of an Investment Fund is spread out by investing in a wide range of 'assets' (such as company shares, listed property, bonds and cash) across different industries and geographic regions. So, as economic and market cycles go through their different stages, some investments in the fund may perform poorly, while others will thrive.

This investment strategy aims to smooth out the peaks and troughs of investment returns (volatility) over time. Investment Funds allow you to have easy access to a diversified and professionally managed portfolio.

Term Deposits vs Investment Funds

The differences between a term deposit and an Investment Fund.

Term Deposits

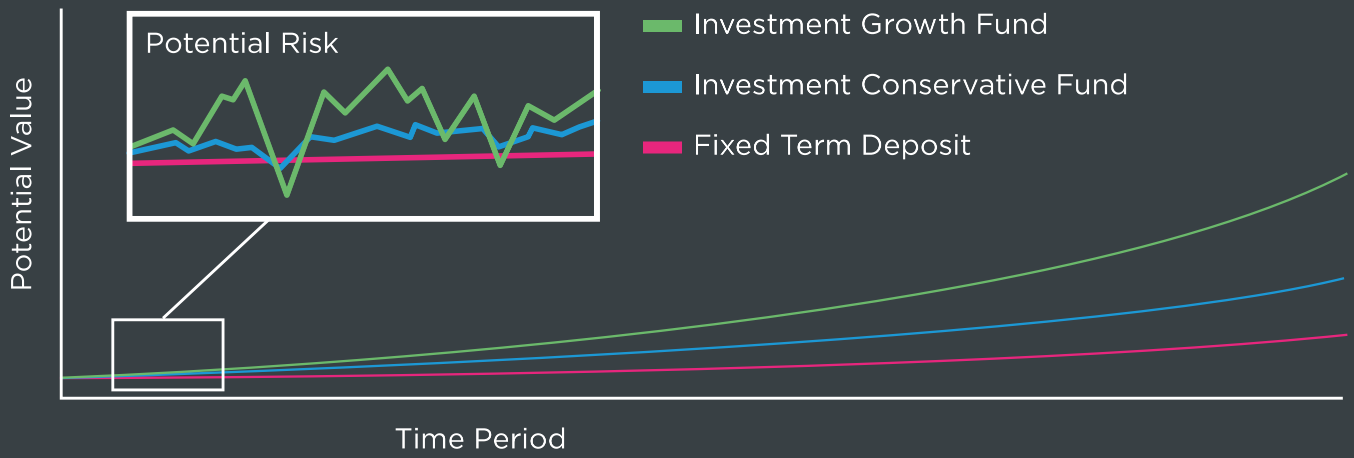
A term deposit involves depositing money with a bank. In this case, you are actually lending money to the bank, which will then pay you some interest in return. Your money is locked in for the "term" you have signed up for, which can be anything from months to years. If you are able to exit early, you generally lose your interest for the period. The interest rate received is usually fixed for the period remaining on your original deposit. Although you do earn a return on your money from the interest, placing money in a term deposit is generally considered "saving" rather than "investing".

Investment Funds

Joining an Investment Fund will generally see you investing in the share market. Unlike term deposits, Investment Fund returns are variable, rather than fixed. This means you cannot know what the return will be before you invest and returns can be negative as well as positive, particularly over shorter time periods. However, your fund will be designed to achieve certain objectives. By understanding those objectives, you can get an idea of what your returns may be.

With an Investment Fund, your money is not locked in for a pre-determined period – you can access it at any time. However, to get the best return on your investment, each fund does have a recommended time frame attached to it.

Example of value of funds over time



Things to know about Investment Funds

Fund Objectives

Different funds have different objectives, with different returns and risk profiles. For example, a lower risk fund that seeks to generate a positive though moderate return over three years will most likely hold a lot of fixed interest investments (known as bonds).

The return for this fund is expected to be lower than a higher risk fund, which might have an objective to beat the New Zealand share market over a rolling eight year period for example. A higher risk fund will invest in a higher proportion of shares and should provide a higher return over time.

Returns

Most Milford Investment Funds provide returns through increases in the fund's unit price. For certain funds, returns may also be provided by payment of distributions from the fund.

Costs and Fees

Milford charges a base fund fee, and in some instances a performance fee. There are no withdrawal or transaction fees, costs or penalties. You can withdraw your money at any time. For more information on the fees and costs applying to Milford's Investment Funds please see the Product Disclosure Statement and The Milford Investment Funds Investor Guide available at milfordasset.com

What about the tax on my returns?

Milford's Investment Funds are portfolio investment entities (or PIEs) for tax purposes. They may have a lower tax rate compared to that of direct holdings (when you buy shares on your own). Investment Funds also reduce your tax administration as your tax liability is accounted for within the fund and paid on your behalf at the end of the tax year. For further information on tax, see the Milford Investments Funds Investor Guide at milfordasset.com

Where is my money held?

The fund's investments are held securely and are kept separate to Milford's corporate money. Milford's fund investments are held by a Custodian controlled by a licensed Supervisor to ensure security. Both the Supervisor and the Custodian are independent of Milford and are independently audited. Milford cannot use your money for any purpose other than the investment you choose.

I want to invest, what's next?

Choosing the right fund for you.

Milford offers twelve different Investment Funds, each one with a different objective. As a result, we believe we have a fund to suit every type of investor.

For example, our lower risk funds prioritise the stability of your investment and aim to produce lower, but more predictable returns.

Alternatively, our higher-risk funds prioritise the growth of your investment and aim to produce higher returns. The trade-off is that those returns are less predictable (i.e. the fund may go up and down in value more often).

Consider the objectives, risk level and minimum recommended investment timeframe for each fund and try to match this to your own reasons for investing.

You can see our past investment returns at **milfordasset.com**. Our expert digital advice tool can help guide you on your way. This can be found at **milfordasset.com/digital-advice-tools**

Ready to invest?

Start your investment journey in a few minutes at **milfordasset.com**

What are my Fund options?

Each Milford fund has an investment strategy, risk profile and expected return profile. The funds are made up of different types of assets, such as shares, bonds and cash.

Multi-asset Funds

These invest across a range of different asset types (which can hold a mix of shares, bonds and cash) to create well-diversified funds. These funds should provide a smoother return and reduced volatility. These funds are often named after a particular risk category indicating how the fund is expected to perform over time. These include:

- **Conservative Fund**
- **Diversified Income Fund**
- **Balanced Fund**
- **Active Growth Fund**
- **Australian Absolute Growth Fund**
- **Aggressive Fund**

Single-asset Funds

These funds often focus on a single asset class, and may be used to provide a greater concentration in a particular sector such as global shares or corporate bonds or to supplement someone's overall investment strategy. These funds are often named after the asset class where they are invested. These include:

- **Cash Fund**
- **Trans-Tasman Bond Fund**
- **Global Corporate Bond Fund**
- **Global Equity Fund**
- **Trans-Tasman Equity Fund**

For a description of the asset make up of each of the Milford Investment Funds please see the Milford Investment Funds Product Disclosure Statement at milfordasset.com

Sustainable Investing

Many investors want to know that their fund manager is investing their money responsibly. 'Sustainable Investing' recognises that investment decisions involve more than just looking at financial disclosures.

At Milford, we view every investment decision through a lens of sustainability. So, before Milford invests in a company, we consider the organisation as a whole. It is clear to us that the best companies are those committed to sustainable practices, and these are the businesses that, over time, will deliver better operational outcomes, stronger financial performance and ultimately, higher shareholder returns.

If we decide a company is not operating in a sustainable way, we strive to drive positive change by engaging with that company's management team and holding their boards to account. By using our influence as active managers to improve the business model's sustainability, we know we are helping to increase a company's potential to achieve long-term financial success.

Milford has made a public commitment to explicitly and consistently incorporate environmental, social and governance factors into our investment decision-making. We have done this by becoming a signatory to the United Nations Principles for Responsible Investment (UNPRI) and a member of the Responsible Investment Association Australasia (RIAA) in February 2018.

In 2020, Milford was awarded an A rating by UNPRI and recognised for strong engagement with policymakers and regulators. Full details are available in Milford's UNPRI Transparency Report.

We were also named a Responsible Investment Leader by the RIAA in their Responsible Investment Benchmark Report 2022 Aotearoa New Zealand.

There are more details about Milford's approach on our sustainable investing page at **milfordasset.com/about-us/sustainable-investing**

Investment Terminology

Bonds

Bonds are essentially a loan to a company or a government-type entity who in return promises to pay the bondholder (e.g. Milford) a fixed interest rate for a set period of time with capital repaid at maturity. Generally, bonds offer lower rates of return compared to shares - but they also have lower volatility and higher security, which means they don't move up and down in value as much as shares.

Shares

Companies are owned by their shareholders. Shareholders will receive any gains and be impacted by any losses in the value of the company's shares, and will receive dividend payments (if the company decides to pay one). Generally, shares offer higher rates of return than bonds, but they also come with higher risk.

The term 'equities' or having 'equity' in a company is often used interchangeably with having 'shares' in a company.

Investment Markets

Investment markets are where we invest your money on your behalf through Milford's Investment Funds. We invest in multiple markets, including those in New Zealand, Australia and the rest of the world.

Investment Timeframe

When you commit money to an Investment Fund, you need to be clear on how long you intend to stay invested in that fund. When will you need or want your money back? Milford encourages our clients to stay invested for a minimum timeframe, depending on the type of fund. If your timeframe is shorter than this, then an Investment Fund may not be the right option for you.

Listed Property

Listed Property refers to shares of companies that invest in property assets as well as listed property trusts. Because they are listed on the stock exchange, investors can buy shares and gain exposure to their property assets.

Cash Holdings

Cash investments include money in bank accounts, fixed deposits and term deposits. These investments can provide stable, low-risk income in the form of regular interest payments. They are low-risk investments that can play an important role in helping you reduce the volatility of your portfolio.

Frequently Asked Questions

Can I access my money when I want to?

Yes, you can! You can withdraw your money at any time without any penalties. It can take 3-4 business days for you to receive it though. Of course, it is recommended you allow your investment to reach the fund's minimum investment timeframe to let it achieve what it sets out to do.

What is an Investment timeframe?

Each Investment Fund has a recommended timeframe. This is the minimum amount of time the fund needs to achieve its investment return objective.

What is active vs passive fund management?

Milford is an Active Fund Manager. As the name implies, we take a hands-on approach to investing. This means we have a team of investment professionals who analyse companies and markets every day, constantly reviewing the best places to invest your money. We interact with hundreds of companies each year to assess where your money should and shouldn't be. This allows us to take advantage of investment opportunities as they arise and manage the risks along the way. Because you are paying for ongoing professional analysis the fees may be higher, but the ultimate goal is strong after-fee returns.

Passive Fund Managers structure their portfolio to replicate or mirror a market index (for example, the NZ share market). This investment strategy generally comes at a cheaper cost than active management. The idea is that the investment will therefore follow (both up and down) the movement of the market they're invested in. This investment approach is based on the belief that it is too difficult for a fund manager to consistently outperform the share market, so you are better off minimising fees and simply taking what the market will give you.

Am I locked into a fund?

No. You are free to switch at no charge between funds as often as you like.

Will I receive dividend payments?

No. Any dividends received from companies held in the fund will form part of the fund's overall return.

What is a fund distribution?

Milford's income-focused funds generally pay distributions at set intervals. Distributions are a way for some of the Milford Fund returns to be paid out to investors in the form of cash payments. The portfolio managers have set the distribution amounts at levels they feel are sustainable, given the current investment environment and expected forecast returns. The amount paid to each investor is based on the number of units held by that investor and is calculated at a specified number of cents per unit.

If you are investing into a fund that pays regular distributions but opt not to receive the distribution, it will be reinvested for you to purchase additional units in that fund. Distributions from the funds are non-taxable events and are not treated as income for tax purposes.

The unit price of the fund is high. Should I choose a fund purely because it has a lower unit price?

No. The unit price can be high or low for many reasons, and it should not be a determining factor in your decision around which fund to invest in. If the unit price is high, it does not mean those units are 'expensive', and if the unit price is low, it does not mean those units are 'cheap'. The unit price is the amalgamation of the values of the underlying investments of a fund – as a unit price reflects the value of multiple underlying holdings, it cannot be viewed in the same way a single share price is viewed.

Investing with Milford

With a minimum investment of just $1,000, you can invest in Milford's suite of Investment Funds. You will get a diversified portfolio managed by our globally experienced team of investment experts.

Active fund management

Our hands-on approach to investing means we pursue the best returns possible by continually re-evaluating where your money is invested. Our ability to move quickly means we can take advantage of opportunities as they arise and manage risk along the way.

Global expertise

We have one of the largest and most globally experienced investment teams in New Zealand. Having this expertise applied to your investment strategy can make your money work hard for you, helping you reach your financial goals. Our strong investment performance has been independently acknowledged by industry bodies, with Morningstar awarding us KiwiSaver Fund Manager of the Year awards for 2013, 2014, 2016, 2018, 2019, 2021, 2022 and 2023, and Canstar awarding us KiwiSaver Provider of the Year and Outstanding Value - KiwiSaver Scheme for 2020, 2021, 2022 and 2023.

Detailed research and insights

Our investment team carry out hundreds of company visits, conducting rigorous reviews and detailed financial analysis. By researching the companies we invest in, we aim to have a greater understanding of where your money should and should not be invested.

A trusted team who invests alongside you

We put our money where our mouth is. That means we invest in the same funds as our clients. We are on the same journey as you, every step of the way. This ensures we are highly motivated to have all of our funds working to deliver the best results over time.

Client satisfaction

As the winner of the Consumer NZ People's Choice award for six years in a row now (2018-2023), we have consistently ranked highly for overall KiwiSaver customer satisfaction. The award covers key factors such as investment performance, client service and client communications.

Making it easy

The Milford mobile app and online portal ensure our clients have full visibility over their balance, their fund's performance, and where their money is invested. Milford clients can download their annual statements, transact on their accounts and view their transaction history right at their fingertips.

In addition, Milford produces insight articles and blogs, and partners with BusinessDesk for business-related news. These are served up in the Milford Portal and Mobile app every day.