MILFORD

Milford KiwiSaver Plan Monthly Review
July 2020

Market and Economic Review

A rebound in global economic activity continues to buoy stocks and corporate bonds. Meanwhile, global central banks are pinning interest rates at very low levels – further supporting asset prices and helping deliver positive returns for Milford Funds for the third month in a row.

The global consumer has led the recovery thus far. This propensity to spend reflects strong household income support from governments coupled with pent-up demand from consumers being released from lockdown restrictions. This spending recovery appears to be 'V' shaped and has exceeded investors' expectations.

On the back of this improving economic growth, share market gains have been broad based. Stock selection within our Funds helped deliver additional strong returns in June. In Australia, Collins Foods (an owner of fast food franchises) was up 17.8% as consumer demand for a cheap luxury has soared. In New Zealand, Fisher & Paykel Healthcare was up 18.7% after strong results confirmed the company as one of the few clear beneficiaries of the COVID-19 outbreak. For more information on stock performance within our Funds please read the individual Fund reports.

High quality corporate bonds also rallied in June, supported by buying from the US Federal Reserve.

Looking ahead, the outlook is uncertain. Expectations for a full 'V' shaped recovery are being dented by the resurgence in COVID-19, something of particular concern in parts of the US and Latin America. Appetite for further social restrictions is waning and whilst this allows for activity to continue, we could see reduced consumer spending as populations take it upon themselves to avoid contracting the illness. We are also wary that the generous US government income support programme is set to expire in the next month, potentially putting further pressure on consumer spending patterns.

Strong share market performance leaves valuations looking expensive, particularly in the light of rising negative risks. This justifies the broadly defensive stance Milford Funds have in place. Long term, we consider, selected shares and corporate bonds should deliver stronger returns than government bonds and cash. In the short term, we see rising risks increasing the chance of market volatility.

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KiwiSaver Cash Fund

Portfolio Manager: Paul Morris

In June the Reserve Bank of New Zealand (RBNZ) left its Official Cash Rate (OCR) unchanged at 0.25%. This was consistent with its previous guidance that the OCR would likely remain at this level until at least March 2021.

Looking forward, the RBNZ may provide more detail on its future monetary policy at the August Monetary Policy Statement (MPS). We expect this will include an update on its development of, and willingness to deploy, alternative monetary policy tools (e.g. a negative OCR).

The portfolio management of the Fund remains focussed on maintaining its low risk strategy which is built on a diversified portfolio of cash, short-dated debt securities and term deposits, so as to protect capital. We believe this should be an attractive, tax efficient (as a PIE vehicle), liquid (meaning investors have access to funds on request unlike term deposits) and low risk alternative to bank term deposits.

Actual investment mix [1]

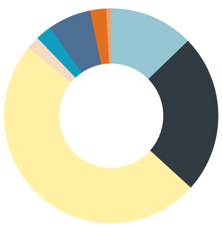
KiwiSaver Conservative Fund

Portfolio Manager: Paul Morris

The Fund returned 0.8% in June and is now up 3.7% over the past year, continuing a recovery from March's weakness. Market volatility remains elevated but supported by extraordinary levels of monetary and fiscal intervention. June was generally a positive month for both bonds and shares.

Bonds continue to benefit from central bank bond buying and an outlook for an extended period of extremely low interest rates. Corporate bonds, to which to Fund is more exposed than government bonds, have especially benefitted. June saw notably strong performance from Australian dollar and global corporate bonds. We have further increased this exposure as we believe valuations remain sufficiently attractive considering ongoing central bank support, especially for investment grade rated bonds.

The Fund's shares also contributed well to its return in June with global and Australasian shares extending gains. This included notable performance from Australian supermarkets Coles and Wesfarmers, recent portfolio additions. We have however marginally reduced the share allocation given valuation levels and earnings uncertainty. That said, we believe there remain opportunities to find attractively priced shares which should deliver reasonable but lower risk returns and allow the Fund to keep up with the broader market. In summary, we reiterate last month's message that an overall defensive Fund setting is appropriate; more cash, fewer bonds (especially lower rated bonds) and shares than the long run neutral.



The actual cash held by the Fund is 8.24%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

*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.

KiwiSaver Moderate Fund

Portfolio Manager: Mark Riggall

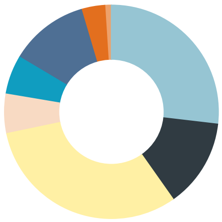
The Fund returned 0.9% in June. Performance was helped by the ongoing recovery in shares and corporate bonds.

Although the backdrop of COVID-19 continues to disrupt activity, extraordinary policy support from governments and central banks have served to support global asset prices. Central banks have been buying bonds and this has seen high quality corporate bonds perform well – including Australian and global corporate bonds where the Fund is significantly invested.

Over the month exposure to these bonds has been increased as the returns on offer look attractive given the support from central banks and very low interest rates. Share market gains in the Fund were broad based with notable performances from owner of fast food franchises Collins Foods (+17.8%) and Australian supermarkets Wesfarmers (+11.0%) and Coles (+11.8%).

The uncertain outlook coupled with expensive share market valuations mean the Fund retains its cautious investment stance with a lower exposure to global shares and lower rated (quality) company bonds in particular.

Actual investment mix [1]



The actual cash held by the Fund is 20.69%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

KiwiSaver Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 1.3% in June bringing the 1-year return to 4.7%. Buoyant share and corporate bond markets helped the Fund deliver positive returns for the third month in a row in June. The recoveries in share and corporate bond markets are in excess of what we had considered possible given the global disruption caused by the COVID-19 outbreak.

Throughout the past three months the Fund has retained a more cautious stance with less exposure to shares and more cash. Nonetheless, the Fund has been helped by exposure to assets that have performed well, as well as careful stock selection in the equity funds. The Fund's exposure to high quality corporate bonds has been rewarded by good performance from an asset class now explicitly supported by the US central bank. Also, the reduced exposure to foreign currency in the month helped as the NZ dollar appreciated sharply against the US dollar.

Finally, more concentrated exposure to stocks such as Fisher & Paykel Healthcare (+18.5%) and the US technology sector helped deliver strong returns for the growth part of the Fund. The outlook is becoming more uncertain as COVID-19 takes a stronger grip on the US and we are past an initial surge in consumer spending. This gives stronger conviction in a more defensive Fund position, with less exposure to expensive global shares in particular.

The actual cash held by the Fund is 7.97%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

†Includes unlisted equity holdings of 0.25% *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 30 June 2020

KiwiSaver Active Growth Fund

Portfolio Manager: Jonathan Windust

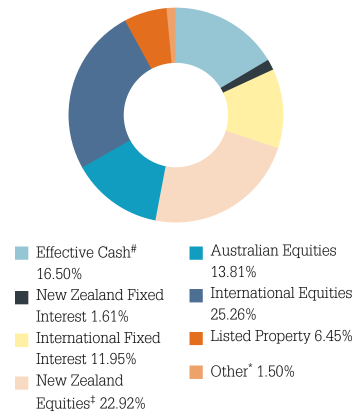
The Fund rose 1.8% in June benefitting from strong New Zealand, Australian and global share markets which rose 5.3%, 2.6% and 2.4% respectively. Shares benefitted as countries started to re-open their economies, institutional investors became less cautious and retail investors' appetite for shares increased significantly. The Fund performed in line with its underlying markets despite being relatively defensively positioned with performance aided by good company selection.

The key positives during the month were Fisher & Paykel Healthcare (FPH, +18.7%) and US technology companies Amazon (+13.0%) and Microsoft (+11.1%). FPH delivered a strong financial result with profit rising 37% due to strong demand for its hospital products which are used to treat COVID-19 patients. FPH's hospital products have been growing strongly and COVID-19 has highlighted the benefits of its respiratory products - a potentially very large market for FPH. Amazon and Microsoft are beneficiaries of COVID-19 as companies accelerate the move to the Cloud to manage their technology, an area which Amazon and Microsoft are clear leaders. Amazon is also benefiting from an acceleration in the move to online shopping.

The Fund remains active and added to investments in New Zealand and Australia shares. In New Zealand we added to holdings in Fletcher Building, Spark and FPH. Whilst we believe growth for Spark will remain low, its tax paid divided yield of approximately 5.5% is attractive relative to very low yields on cash and fixed income. Globally we added to our holdings in Spanish Airport operator AENA. On a medium-term basis AENA is attractively valued and significantly cheaper than Auckland Airport.

Looking forward we believe markets are likely to remain volatile given the very uncertain impact of COVID-19 on economies, company earnings and valuations. However, over the medium-term the impact on company earnings and valuations is less meaningful with many companies' earnings likely to rebound strongly and some companies benefiting. On balance the Fund remains cautious given the uncertain environment and recent rise in share market valuations. The Fund has a lower than average allocation to shares of around 70% however, we remain excited that this market will provide great opportunities for active management gains.

Actual investment mix [1]



The actual cash held by the Fund is 6.06%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

KiwiSaver Aggressive Fund

Portfolio Manager: Stephen Johnston

The Fund gained 1.7% in June, with share markets globally posting strong gains in the quarter. In fact, the Dow Jones Industrial index that comprises 30 of America's largest companies followed its worst first quarter ever, with the best second quarter performance since 1938, up almost 18% for the quarter. While economic data has improved, there is a worrying increase of new COVID-19 cases in the US and some of the emerging markets that we are monitoring closely.

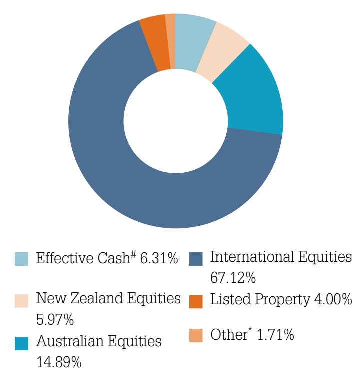
In June, we saw a rotation back into blue chip technology names such as Amazon and Apple that are seen as beneficiaries of the global pandemic. The virus has accelerated the trend towards a more digital world and we don't expect that trend to reverse. For example, Microsoft CEO Satya Nadella emphasised this point by highlighting that we have seen two years of digital transformation in two months. In simple terms, digital transformation is the use of technology into all areas of a business to accelerate growth.

The key positive contributor in June was Apple (+14.7%), cementing its position as the world's most valuable company with a market capitalisation of NZ$2.4 trillion, over 7 times the size of the NZ economy. Fellow US technology giant, Amazon, also performed strongly (+13.0%) as e-commerce goes from strength to strength. Amazon has exceeded our expectations, up a whopping 49.3% year to date.

Detractors from performance included Alphabet (-1.1%), which was hurt by the advertising slowdown and increasing pressure from anti-trust regulators concerned about their dominance. Ecolab (-6.2%), the world leader in water and hygiene technologies globally, fell on profit taking after a huge rally off its lows in March.

Key positive contributors in Australasia included Collins Foods (+17.8%), the owner of KFC restaurants in Australia and Europe. Also, electronic payments company Smartpay (+27.9%) surged as their capital raising is likely to accelerate growth.

The outlook for the second half of 2020 remains uncertain and we expect volatility to stay elevated. However, we continue to take an opportunistic approach in this market volatility, by identifying high quality businesses that will emerge from this downturn even stronger.



The actual cash held by the Fund is 7.01%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

‡Includes unlisted equity holdings of 1.65% *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 30 June 2020

Fund Performance

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	Since Fund inception (p.a.)	Unit price $	Fund size $
KiwiSaver Cash Fund	0.02%	—	—	—	—	1.0009	20.3 M
KiwiSaver Conservative Fund	0.83%	3.75%	5.47%	5.95%	8.58%	1.8629	183.7 M
KiwiSaver Moderate Fund	0.95%	—	—	—	—	1.0698	12.8 M
KiwiSaver Balanced Fund	1.29%	4.70%	7.74%	8.04%	9.73%	2.4918	410.6 M
KiwiSaver Active Growth Fund^	1.81%	3.84%	9.27%	9.76%	12.06%	3.9836	1,602.3 M
KiwiSaver Aggressive Fund	1.69%	—	—	—	—	1.0870	121.5 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: KiwiSaver Active Growth Fund: 1 October 2007, KiwiSaver Balanced Fund: 1 April 2010, KiwiSaver Conservative Fund: 1 October 2012, KiwiSaver Aggressive Fund: 1 August 2019, KiwiSaver Cash Fund: 27 March 2020, KiwiSaver Moderate Fund: 27 March 2020.
^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)	5.26%	9.85%	15.70%	16.10%	15.81%
S&P/ASX 200 Accumulation Index (AUD)	2.61%	-7.68%	5.19%	5.95%	7.48%
S&P/ASX 200 Accumulation Index (NZD)	2.43%	-5.48%	5.91%	4.67%	5.92%
MSCI World Index (local currency)*	2.36%	3.29%	6.91%	7.16%	9.31%
MSCI World Index (NZD)*	-1.26%	7.30%	11.38%	7.96%	11.23%
S&P/NZX 90-Day Bank Bill Rate	0.01%	1.20%	1.71%	2.04%	2.40%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	0.50%	6.07%	5.14%	4.44%	4.33%
S&P/NZX NZ Government Bond Index	-0.64%	5.68%	6.03%	5.23%	5.25%

*With net dividends reinvested

Milford is the proud winner of multiple awards:

Consumer NZ People's Choice Award – KiwiSaver

Morningstar Fund Manager of the Year - KiwiSaver Category, NZ

Zenith FundSource Awards - Fund Manager of the Year

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

KiwiSaver Cash Fund	KiwiSaver Conservative Fund	KiwiSaver Moderate Fund
NZLGFA 0% 2020 7.57%	NZLGFA 1.5% 2029 1.42%	Spark New Zealand 0.99%
Housing NZ 0% 2020 4.77%	Housing NZ 3.36% 2025 1.24%	a2 Milk Company 0.84%
ANZ 1.2% 2020 3.79%	John Deere 1.75% 2024 1.12%	NZLGFA 1.5% 2029 0.74%
Housing NZ 0% 2020 3.79%	NZLGFA 3.5% 2033 1.11%	Fisher & Paykel Healthcare 0.73%
Auckland Airport CD 2020 3.79%	Westpac 2.22% 2024 1.11%	NZLGFA 1.5% 2026 0.66%
NZ Government 0% 2020 3.03%	ASB Bank 1.83% 2024 1.10%	Microsoft Corp 0.66%
NZ Government 0% 2020 2.65%	ANZ Bank 3.03% 2024 0.99%	Housing NZ 3.36% 2025 0.65%
Kiwibank 1.05% 2020 2.35%	ING Group 1.45% 2024 0.96%	Woolworths 0.65%
Westpac 32 Day CMD 2020 2.32%	NHFIC 1.41% 2032 0.94%	Transurban Group 0.64%
Westpac 1.3% 2020 2.28%	NZLGFA 1.5% 2026 0.94%	Contact Energy 0.64%

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).

KiwiSaver Balanced Fund	KiwiSaver Active Growth Fund	KiwiSaver Aggressive Fund
a2 Milk Company 1.82%	a2 Milk Company 4.00%	Microsoft Corp 3.43%
Spark New Zealand 1.78%	Fisher & Paykel Healthcare 3.94%	Amazon 3.42%
Fisher & Paykel Healthcare 1.73%	Spark New Zealand 3.88%	Alphabet 2.80%
Microsoft Corp 1.28%	Contact Energy 2.50%	Apple 2.33%
Amazon 1.17%	Summerset Group Holdings 1.89%	Visa 2.21%
Alphabet 1.16%	Microsoft Corp 1.85%	Mastercard 2.07%
Contact Energy 1.14%	Alphabet 1.76%	Martin Marietta 1.96%
Woolworths 1.10%	Newmont Mining 1.58%	Transunion 1.93%
Apple 1.01%	Electronic Arts 1.37%	ANSYS 1.92%
Transurban Group 0.96%	EBOS Group 1.37%	Paypal Holdings 1.85%

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 $11.5 million invested in the Milford KiwiSaver Plan as at the end of June 2020.

Greg Cassidy
Senior Analyst

Investment Highlight - Saracen Minerals

It is always pleasing to see a company mature and develop over the years. With good management, good strategy and a bit of luck, good little companies can grow up into something significant. Saracen Minerals is one such company mining gold in the Western Australia outback.

Saracen has been listed on the ASX since 1987 but with a mixed track record. The current CEO was promoted to the top job in 2013, inheriting a plethora of problems and had to simplify things. Close to a decade ago, I remember visiting their relatively new processing plant in the middle of the desert that was surrounded by several mines not big enough to fill it.

Saracen decided it needed to find a lot more gold hidden deep under its land by investing millions in drilling. Production grew over the last three years, but we felt an investment would go unrewarded as it was not leading to much extra cash generation. We thought the share price was too high as it was following production growth rather than the slower profit growth.

The game changer was the November 2019 acquisition of a half share in one of the largest gold mines in the world – The Super Pit in Kalgoorlie. This is arguably the home of gold mining in Australia but was owned jointly by two large North American gold miners. This was an opportunity to buy a large cash generator that was in the middle of a tough period needing new owners to reinvigorate. We bought in the equity raise at $2.95, helping fund the deal. Soon afterwards, the larger Northern Star bought the other half, so it is now locally owned.

The older mines are now generating respectable cash, giving Saracen a good track record with the cash improvement from the Super Pit expected to come quicker.

Our purchase took place as the gold price started rallying from falling inflation and bond yields. Now, in a COVID-19 world of even lower interest rates and huge Central Bank stimulus, gold is even more attractive. Saracen has been promoted to the ASX 100 index and should generate solid cash flow from both higher production and the price of gold which is what we like to see. Whilst much of this is now in the share price ($5.42 as at 30 June), management's execution has proven better than its other gold peers showing that it is now a mature adult amongst gold miners.

Using your KiwiSaver for Retirement Income from age 65

Murray Harris
Head of KiwiSaver

KiwiSaver members should be focused on making sure they are in the right fund and contributing enough to reach their retirement lifestyle goals. But what about once you retire? How can your KiwiSaver continue to support your financial well-being in retirement?

There are three options available to you once you are eligible to access your KiwiSaver funds. You can withdraw your funds in full, you can remain invested and start drawing an income from your KiwiSaver or you can remain invested and leave it as it is.

If you withdraw your funds in full you are likely to place them in a bank account or term deposit. However, interest rates are at historical lows (and we anticipate they may go even lower) and term deposits, which have long been favoured by retirees, are becoming a less attractive option as a primary source of income. A term deposit these days is likely to provide less than 2% interest on your funds. A far cry from the 4, 6 or 8% rates of a few years ago, creating some challenges for retirees to ensure their savings not only last long enough but continue to grow ahead of inflation, which currently sits at 2.5%.

Given the low interest environment, an alternative strategy for KiwiSaver members is to keep your funds invested and draw an income from the investment over time. Over 65-year olds are increasingly using KiwiSaver as a primary investment option well into retirement. With the flexibility of withdrawals from KiwiSaver for over 65's, members are able to set up a regular monthly payment from their KiwiSaver account to their bank account to supplement their NZ Superannuation payments.

The benefit of this is your funds remain invested with the potential to continue growing ahead of inflation and ahead of your draw down rate (depending on how much you choose to withdraw). This means your funds are likely to last longer and you can enjoy a better-quality retirement.

Reaching your retirement age and goal doesn't need to mean the end of your KiwiSaver journey. If you are interested to learn more, you can check which Milford KiwiSaver Fund might be suitable to you in retirement and match your appetite for risk with our Risk Profile Tool.

Source: RBNZ