MILFORD

Milford KiwiSaver Plan Monthly Review
October 2020

Market and Economic Review

In hindsight, a little exuberance in share markets is easy to identify. The strong August performance of shares, particularly US technology, had all the hallmarks of a 'greed' driven rally. It's still not clear what exactly caused the turnaround, but September performance has been virtually the mirror image with broadly negative returns across share markets.

Milford's investment team recognised the increasing risks and responded in two ways. Firstly, a more cautiously invested stance was taken, with increased levels of cash or protection taken out against market falls. Secondly, there was discipline on the stock selection side where we took profits on some of our recent winners. As a result, although Fund performances in the month are negative, Funds have managed to hold onto a large portion of the gains seen over the past few months.

The global economic recovery has been enabled by stimulus from governments and central banks, with JP Morgan estimating that fiscal support will add 3.7% to global GDP this year. The 'V' shaped recovery in consumer spending in the face of significant global unemployment is clear evidence of this policy success.

Looking ahead, the path is less clear. Consumer spending has been on goods as opposed to services, and therefore much more likely to be one-off in nature. Services spending (e.g. leisure, travel and dining) will continue to be impaired until we have a widely distributed vaccine for COVID-19. Stimulus checks from governments may be harder to come by, for example the US government has failed to agree to a renewed spending package after the previous one expired at the end of July.

Elections also loom large. In NZ, the outcome appears to be reasonably clear with the current government likely to resume power. In the US though, chances are high that they will have a change in government. Furthermore, the risk of a contested outcome is high – creating an increase in uncertainty that would surely roil global share markets.

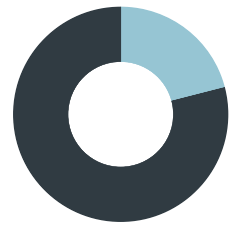
The recent pullback in shares means we do have increased conviction in shares that can support their valuations with reasonable and sustainable dividend yields. Given the risks to the global outlook and higher valuations we remain more cautious on international shares. However, with monetary stimulus remaining supportive for asset prices, we remain largely fully invested.

Milford Asset Management
W milfordasset.com
T 0800 662 346
E info@milfordasset.com
Level 28, 48 Shortland Street
Auckland 1010, New Zealand
PO Box 960, Shortland Street
Auckland 1140, New Zealand

KiwiSaver Cash Fund

Portfolio Manager: Paul Morris

Actual investment mix [1]



Effective Cash# 21.01%
New Zealand Fixed Interest 78.99%
Other* 0%

The actual cash held by the Fund is 21.01%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

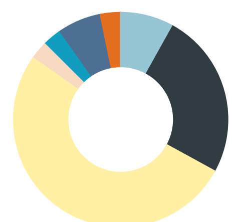
Short dated NZ dollar bank bills, a reflection of interbank funding levels, remained close to unchanged over the month but expectations remain elevated for a negative Official Cash Rate (OCR) next year.

In September the Reserve Bank of New Zealand (RBNZ) reiterated this possibility. It also outlined the likelihood of a bank funding for lending programme which could be available before year end. This all forms part of the RBNZ's efforts to bring market and retail interest rates lower. In previous commentary we outlined an expectation that even under a negative OCR, the Fund should be able to deliver a positive return. We would caveat this expectation with the fact that it remains dependent on myriad factors not limited to (i) the extent the OCR could go negative and (ii) the impact the still developing RBNZ policy actions have on the yields available from the Fund's investible universe.

For now, however, recent developments have not changed the portfolio management of the Fund which remains focussed on maintaining a low risk strategy, built on a diversified portfolio of cash, short-dated debt securities and term deposits, to protect capital. We believe this still remains an attractive, tax efficient (as a PIE vehicle), liquid (meaning investors have access to fund on request unlike term deposits) and low-risk alternative to bank term deposits.

KiwiSaver Conservative Fund

Portfolio Manager: Paul Morris



Effective Cash# 8.10%
New Zealand Fixed Interest 24.87%
International Fixed Interest 51.78%
New Zealand Equities 2.72%
Australian Equities 2.77%
International Equities 6.53%
Listed Property 3.20%
Other* 0.03%

The actual cash held by the Fund is 3.82%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

The Fund's strong recovery from the weakness seen in March paused in September and it was close to flat over the month. While Australasian bonds enjoyed a good month, benefitting from expectations of even more monetary policy stimulus, it was a more difficult month for many of the markets into which the Fund is invested.

Global corporate bonds, global shares and most sectors of the Australasian share market were weaker. There were however some bright spots, notably NZ property shares and utilities, the latter benefitting from news the NZ government was negotiating for a postponement of the Tiwai smelter closure. Given elevated valuations across many share and bond markets the Fund went into the month with a slightly cautious setting, notably holding less shares than its long run neutral. While we have slightly increased this exposure, it remains below neutral as we remain wary of potential volatility around myriad risks; US elections, fading fiscal stimulus, a second wave of COVID-19 infections (already evident in Europe) and a slowdown in the pace of the economic recovery.

Nevertheless, looking ahead over the medium term we remain optimistic that ongoing support from governments and central banks should ultimately underpin the economic recovery and support both bond and share market returns. All the while, there is also the expectation that next year will bring an effective COVID-19 vaccine which would of course further support the recovery.

*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

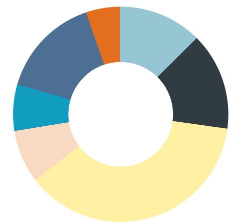
Portfolio Manager: Mark Riggall

The Fund return was flat for the month. After a strong August, share markets saw the most volatility since June as high-flying US technology shares reversed course. The Moderate Fund largely avoided this turmoil as it entered the month carrying higher levels of cash, a lower exposure to US shares and a larger exposure to foreign currencies (the NZ dollar tends to fall when risky assets such as shares also fall).

Over the course of the month some cash was put to work - increasing investments in lower-risk, high dividend yielding stocks, as well as selected company bonds that can deliver greater returns than the meagre interest rates that cash offers.

The outlook remains very uncertain, economic growth looks to have peaked after a strong rebound and fiscal support from governments is waning (particularly in the US). Nonetheless, with interest rates very low, this makes shares and company bonds more attractive and these will continue to deliver better returns than cash in the long run.

Actual investment mix [1]



- Effective Cash# 12.57%
- New Zealand Fixed Interest 14.65%
- International Fixed Interest 37.24%
- New Zealand Equities 7.96%
- Australian Equities 6.96%
- International Equities 15.31%
- Listed Property 5.31%
- Other* 0%

The actual cash held by the Fund is 7.73%. 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 0.1% in September, bringing the 1-year return to 6.0%. After the exuberance of August, US share markets slumped in September, led by technology stocks. This dragged other global share markets lower too but the impact on the Australian and NZ share markets, where the Fund is largely invested, was more muted. Although the exact cause of the sell-off is hard to identify, peaking economic growth, lower fiscal stimulus and the looming US election are all reasons for investors to be more cautious.

The Balanced Fund navigated the sell-off in a number of ways. Firstly, the underlying Funds had been taking profits on stocks that had been performing well and investing the proceeds in less expensive income stocks. Secondly, the Balanced Fund itself had reduced exposure to global (particularly US) shares, recognising that valuations and risks had been rising in August. Thirdly, the Fund increased its foreign currency exposure as the NZ dollar tends to fall when global shares fall. In the long term, low interest rates will continue to support asset prices, particularly those that can deliver sustainable incomes from coupons or dividends.

Accordingly, the Fund has been increasing exposure to the Income Fund over the month. Growth assets (shares) are likely to continue to be volatile as the outlook remains uncertain. The easy gains for the global economy are behind us and persistent unemployment, and potentially reduced appetite for government support, will weigh on growth going forward. The Fund remains cautious towards global shares within the context of an otherwise fully invested Fund.

- Effective Cash# 11.04%
- New Zealand Fixed Interest 5.61%
- International Fixed Interest 24.80%
- New Zealand Equities† 13.55%
- Australian Equities 11.69%
- International Equities 25.62%
- Listed Property 7.69%
- Other* 0%

The actual cash held by the Fund is 5.26%. 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 0.24% *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 September 2020

KiwiSaver Active Growth Fund

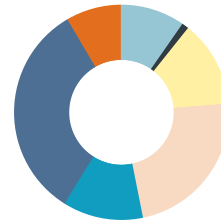
Portfolio Manager: Jonathan Windust

The Fund fell 0.7% in September as share markets gave back some of their recent strong gains. Share price falls were greatest in the US and in the technology sector where prices and valuations had risen sharply.

Key positive company investments during the month included Contact Energy (+6.4%) and US construction materials company Martin Marietta (+16.0%). Contact benefitted from the Labour party's announcement to provide support to keep the Tiwai Point smelter, NZ's largest electricity user, operating for another 3 to 5 years. Martin Marietta benefitted from a strong US housing market and the potential for increased government spending on infrastructure. A key addition to the portfolio was a fixed income investment in Scentre Group, the owner of Westfield shopping malls in New Zealand and Australia. The issue has a fixed yield of 5.1% which we believe is very attractive given its well-positioned premium shopping mall portfolio. The Fund sold NZ dollar and increased exposure to the US dollar during the month, reflecting the aggressive policy of our Reserve Bank in terms of bond buying and potentially negative rates. Low rates make NZ much less attractive to foreign investors reducing demand for the NZ dollar.

The short-term outlook for shares remains uncertain with rising virus cases, potentially reduced government support, elections, BREXIT and historically high valuations. The main positives remain very strong stimulus measures and very low interest rates which create demand for shares as investors look for a return. A vaccine would be a positive for economies although some companies that have benefitted from the virus and working from home may see headwinds. On balance we expect shares to outperform over the medium-term but remain volatile given the high level of uncertainty. The strategy of the Fund is to remain active and invest in a combination of reasonably priced growth companies and companies which offer value and attractive yields.

Actual investment mix [1]



- Effective Cash# 9.71%
- New Zealand Fixed Interest 1.03%
- International Fixed Interest 13.05%
- New Zealand Equities‡ 23.07%
- Australian Equities 11.94%
- International Equities 32.71%
- Listed Property 8.49%
- Other* 0%

The actual cash held by the Fund is 4.98%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

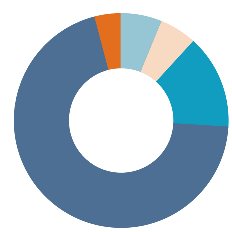
KiwiSaver Aggressive Fund

Portfolio Manager: Stephen Johnston

The Fund fell 0.9% in September and is up 16.2% over the last year. It was a volatile month, with a sharp correction in some of the best performers year-to-date such as US technology stocks. There was also a rotation into some of the more economically sensitive sectors such as industrials and materials. The S&P 500 Index that comprises the largest companies in America fell 3.8% in September, while the technology-heavy Nasdaq Index dropped 5.1% .

Key positive contributors included US aggregates company Martin Marietta (+16.0%), benefitting from the rotation into more cyclical areas of the market. Japanese accounting software company Freee (+35.9%) continued to exceed our expectations and has now almost quadrupled since its IPO in December 2019. Another strong performer was French luxury goods company Kering (+10.3%) that owns a portfolio of well-known brands like Gucci, Bottega Veneta and Saint Laurent. Kering's 2020 earnings have been severely impacted by COVID-19 but we anticipate a strong recovery in the coming years given pent up demand. DR Horton (+6.0%), the largest US homebuilder, also contributed positively as it benefits from the housing boom in the US as homebuyers take advantage of record low mortgage rates.

Detractors included large cap US technology companies including Apple (-10.3%), Alphabet (-10.1%), and Amazon (-8.8%) as investors locked in gains after incredibly strong returns year to date. Positive contributors in Australasia included tourism and transport company Sealink Travel (+18.3%), building materials company CSR (+16.7%), and mortgage provider AFG (+19.6%). In terms of detractors, local companies a2 Milk (-17.5%) and Fisher & Paykel Healthcare (-9.7%) both fell. As we move into the final quarter of 2020, we expect volatility to stay high given the uncertainty surrounding the economic outlook and the success of Phase 3 vaccine trials for COVID-19. We continue to take an opportunistic approach in this market volatility, by identifying high quality businesses that will emerge from this downturn even stronger.



- Effective Cash# 6.23%
- New Zealand Equities 5.57%
- Australian Equities 14.18%
- International Equities 69.91%
- Listed Property 4.11%
- Other* 0%

The actual cash held by the Fund is 7.82%. 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 1.73% *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 September 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	0.04%	—	—	—	—	1.0019	21.3 M
KiwiSaver Conservative Fund	0.01%	4.00%	5.82%	6.32%	8.63%	1.9080	190.5 M
KiwiSaver Moderate Fund	0.01%	—	—	—	—	1.1011	22.4 M
KiwiSaver Balanced Fund	0.11%	6.04%	8.48%	9.07%	9.94%	2.6007	457.2 M
KiwiSaver Active Growth Fund^	-0.75%	6.11%	9.99%	10.65%	12.29%	4.2047	1,752.2 M
KiwiSaver Aggressive Fund	-0.88%	16.22%	—	—	14.95%	1.1748	190.0 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)	-1.41%	8.26%	15.02%	17.18%	15.13%
S&P/ASX 200 Accumulation Index (AUD)	-3.66%	-10.21%	4.80%	7.31%	5.93%
S&P/ASX 200 Accumulation Index (NZD)	-4.55%	-9.50%	4.78%	7.04%	5.41%
MSCI World Index (local currency)*	-2.89%	8.55%	7.85%	10.32%	9.35%
MSCI World Index (NZD)*	-1.27%	4.74%	11.00%	9.75%	11.98%
S&P/NZX 90-Day Bank Bill Rate	0.02%	0.87%	1.57%	1.90%	2.31%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	0.37%	4.14%	5.12%	4.32%	4.32%
S&P/NZX NZ Government Bond Index	0.86%	5.42%	6.62%	5.31%	5.82%

*With net dividends reinvested

Milford KiwiSaver plan is the proud winner of multiple awards:

Consumer NZ People's Choice Award – KiwiSaver

Canstar Provider of the Year | KiwiSaver

Canstar Outstanding Value | KiwiSaver Award

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

KiwiSaver Cash Fund	KiwiSaver Conservative Fund	KiwiSaver Moderate Fund
Westpac 32 Day CMD 2020 9.14%	NZLGFA 1.5% 2029 1.44%	Spark New Zealand 1.38%
ANZ 1.21% 2020 5.29%	Scentre Group 5.125% 2080 1.35%	Scentre Group 5.125% 2080 1.20%
Housing NZ 0% 2020 4.96%	Housing NZ 3.36% 2025 1.18%	Contact Energy 1.07%
ANZ 1.2% 2020 3.95%	NZLGFA 3.5% 2033 1.14%	Fisher & Paykel Healthcare 1.00%
ANZ 1.15% 2020 3.94%	Westpac 2.22% 2024 1.09%	NZLGFA 1.5% 2029 0.81%
Christchurch City 0% 2020 3.94%	CBA Float 2030 1.09%	Transurban Group 0.77%
Auckland Airport CD 2020 3.94%	AusNet Float 2080 0.97%	CBA Float 2030 0.76%
Contact CD 2020 3.94%	ING Group 1.45% 2024 0.96%	AusNet Float 2080 0.76%
Port of Tauranga CD 2020 3.93%	Transpower 1.735% 2025 0.95%	Woolworths 0.74%
ANZ 1.2% 2020 3.16%	ASB Bank 1.83% 2024 0.94%	NZLGFA 1.5% 2026 0.73%

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
Spark New Zealand 2.17%	Spark New Zealand 4.22%	Amazon 3.12%
Fisher & Paykel Healthcare 1.96%	Fisher & Paykel Healthcare 4.15%	Microsoft Corp 2.73%
Contact Energy 1.51%	Summerset Group Holdings 2.64%	Alphabet 2.60%
a2 Milk Company 1.24%	a2 Milk Company 2.32%	Thermo Fisher Scientific 2.01%
Amazon 1.17%	Contact Energy 2.08%	Visa 1.81%
Microsoft Corp 1.14%	Dr Horton 1.99%	Alibaba Group 1.79%
Scentre Group 5.125% 2080 1.11%	Scentre Group 5.125% 2080 1.66%	Mastercard 1.79%
Transurban Group 1.06%	Charter Hall Retail 1.65%	Home Depot 1.78%
Woolworths 1.04%	EBOS Group 1.63%	Transunion 1.77%
Alphabet 1.04%	Microsoft Corp 1.60%	Dr Horton 1.75%

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 $12.7 million invested in the Milford KiwiSaver Plan as at the end of September 2020.

David Rigby
Senior Analyst

Investment Highlight - James Hardie Industries

James Hardie is the global leader in fiber cement exteriors for stand-alone homes. Since pioneering the material in Australia in the early 2000s, the company has been on a remarkable run of growth – especially in the US where performance and cost advantages have enabled it's products to gradually displace more established Wood, Brick and Vinyl siding. Last year, around one in five of the 900,000 new single-family homes built in the US were clad in Hardies.

But the story has not always been so positive. Our more experienced clients will remember Hardies from its days selling asbestos-based products in the 1950s to 1980s, as well as its attempts in the mid 2000's to avoid responsibility for the ensuing health crisis. The company is also one of those taken to court in NZ for products, sold from the 1980s to 2000s, that may have contributed to leaky homes. In our view, Hardies had badly breached its social license to operate.

Thankfully, a lot has changed since then; including a 2012 Australian High Court finding against former directors and, in 2007, the establishment of a company-funded trust that has paid out over A$1.6bn in compensation to asbestos victims (with an estimated A$1.4bn still to come).

By 2014, internal change had been sufficiently widespread and meaningful for us to take another look – and we found many essentials of a sound long term investment, including:

1. Fiber cement being a potentially disruptive material with clear competitive advantage
2. A track record of product innovation and potential to keep taking market share long term
3. Clear market demand, growing scale benefits and pricing power
4. The prospect of sustainably high returns on invested capital

The process of corporate rejuvenation continued in 2019 with the appointment of Jack Truong as CEO. An inaugural Social Responsibility report was published, management compensation hurdles were increased (twice), new systems and investment for employee safety and environmental mitigation were introduced, and customer focus was brought to the fore.

Of course, risks remain. Low interest rates and pent up demand have contributed to a US housing boom that will eventually fade, and Hardies' first steps into Europe haven't been as smooth as hoped. However, the initial shares we bought in 2014 for A$13.68/share now trade at over A$34 each. The market appears to agree with our positive view on the outlook for the new James Hardie.

Milford KiwiSaver Plan Monthly Review

MILFORD

Milford wins twice at the 2020 Canstar KiwiSaver Awards

We're proud to announce that we've won both the KiwiSaver Provider of the Year, and Outstanding Value KiwiSaver Award in the recently announced 2020 Canstar KiwiSaver Awards.

Murray Harris
Head of KiwiSaver & Distribution

Canstar research and analyse financial services and products across New Zealand and Australia. The Provider of the Year Award is decided based on a combination of value of the core fund categories (Conservative, Balanced & Growth), member satisfaction and quality of services. Milford's Conservative, Balanced and Active Growth Funds received a 5-Star Rating and Milford scored top marks in customer satisfaction of all eligible providers.

The Outstanding Value Award compares fund performance, price and features of the three core fund categories (Conservative, Balanced and Growth) over a 5-year period to determine which providers are giving the best overall value to their members. This year's research covered 117 KiwiSaver Funds.
We are delighted to accept these awards on behalf of you, our members and are very pleased that the hard work we do to give you the best KiwiSaver experience possible has been independently recognised.

Of course, we will not be resting on our laurels. We will keep challenging ourselves to bring you consistently good fund returns and excellent client service. This includes some exciting new online tools to help you set and achieve your KiwiSaver goals. Keep an eye on your emails for more information on these soon!

In the meantime, don't forget to login to your Milford Portal or the Milford Mobile App to see your KiwiSaver balance, your fund performance and the companies which make up your funds. And we also have our friendly and expert Investor Services Team, who are here to take your calls if you need to speak to us about your KiwiSaver account on 0800 662 346 or you can drop them an email at info@milfordasset.com.