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Milford KiwiSaver Plan Monthly Review
January 2020

Market and Economic Review

December saw share markets extend the strong run they have been on since the start of 2019. The uncertainty of trade wars and Brexit has subsided, and investors expect global economic growth and company profits to pick up. Most Milford funds posted gains in the month, capping a strong 12-month performance across funds of all types.

Interest rates have been the major driver of asset prices in 2019 with global central banks cutting interest rates at the fastest pace since 2009. This has directly benefited bond investments and indirectly benefited shares as investors seek higher yielding assets – in many cases dividend yields remain well above interest rates.

This has been most evident in the performance of the NZ share market (NZX 50 Gross Index up 30.4% in 2019) although Australian and global share markets have also posted strong gains. The question facing investors in 2020 is what next?

Although economic growth is expected to improve, the rate of growth is likely to remain moderate. The cyclical areas of the economy such as manufacturing can improve meaningfully but the global consumer is largely spending at close to full potential. Government spending has room to increase but this faces either political hurdles, such as in Europe, or fiscal hurdles from the high levels of global government debt. Company profits are also unlikely to rise significantly as corporations face higher costs in the form of rising wages.

Interest rates around the world are unlikely to fall much further, and should growth be better than expected they could even rise - this would be a headwind to broad gains in share markets.

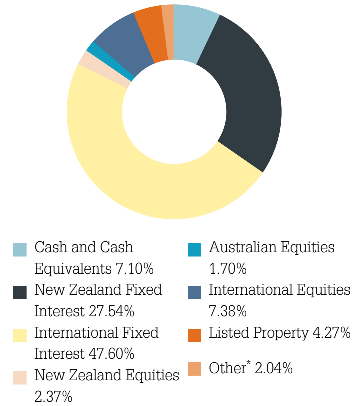
Finally, investors begin 2020 in a relatively optimistic state, meaning positives will be expected whilst negatives could come as a surprise. 2020 brings its fair share of catalysts, most notably the US election in November. Recent aggression by the US in Iran also reminds us that geopolitical tensions remain high.

Whilst we remain optimistic over the outlook, broad market gains like we saw in 2019 are unlikely to be repeated. Instead, opportunities will lie in active management - selecting the right sectors and companies to invest in.

KiwiSaver Conservative Fund

Portfolio Manager: Paul Morris

Actual investment mix [1]



The Fund returned just 0.03% in December but has delivered a strong 1-year return of 9.3%.

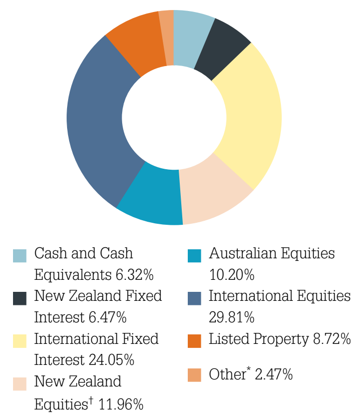
During December the Fund's exposure to global corporate bonds and shares contributed positively to returns. Global shares performed well into year-end as a result of positive developments in US-China trade negotiations and the UK election result. Global corporate bonds outperformed some moderate weakness in government bond prices.

Australasian market returns were more mixed. NZ shares generated a positive return, with the Fund benefiting from gains in the retirement sector as a result of a takeover bid for Metlifecare. These positive returns were offset by a weak month for Australian shares and lower bond prices in both NZ and Australia as a result of higher market interest rates.

The Fund maintains slightly less defensive positioning relative to earlier in the year, but still with less shares than the long run neutral. The risk of a further adjustment higher in market interest rates means we retain below long run neutral interest rate exposure. We remain cautiously optimistic on the outlook for returns, underpinned by accommodative central bank monetary policy and an improving economic outlook. We do, however, reiterate that the price gains already posted by bonds and shares mean the recent moderation in Fund returns may continue in the near term.

KiwiSaver Balanced Fund

Portfolio Manager: Mark Riggall



The Fund returned 0.7% in December, with a strong 1-year return of 17.7%. Fund returns in 2019 were driven by a favourable starting point (after the share market falls of late 2018), economic weakness that was not as bad as feared and most significantly - meaningful falls in interest rates around the world. For the Balanced Fund this benefited share and bond portfolios with both contributing positively to the returns last year.

Active positioning around currency exposure contributed meaningfully to performance in December and the strong performance of global shares was the main contributor to the Fund’s return in the month. The size of the return last year is unlikely to be repeated over the next 12 months. Broad and uniform market gains will be unlikely, with volatility in both directions becoming the norm. We are also likely to see greater rotation under the surface as the outlook for different types of companies changes.

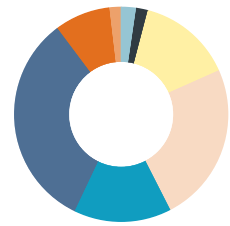
Consequently, the Fund will be relying on active management and particularly stock selection within the underlying Milford funds to drive returns going forward. Even though returns from markets are expected to be lower, the backdrop for investing remains favourable with improving growth and low interest rates, therefore the Fund remains fully invested.

†Includes unlisted equity holdings of 0.32% *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 Active Growth Fund

Portfolio Manager: Jonathan Windust

Actual investment mix [1]



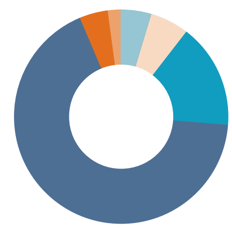
The Fund rose 1.0% in December and 20.3% for 2019. During the month global shares rose 2.3% benefiting from reduced uncertainty after a strong election win by the Conservative Party in the UK and progress on trade between China and the US.

Key performers included NZ retirement village companies: Arvida (+19.7%), Metlifecare (+17.0%) and Summerset (+15.6%). Retirement villages rose following a takeover for Metlifecare for $7.00 a share, a 38% premium to the price before the initial approach was announced. Given reduced risks the Fund increased its holdings in shares during the month. In particular we added to UK bank Virgin Money which we think is attractively valued and should benefit from greater certainty in the UK economy.

Looking into 2020 we believe shares remain attractive relative to low yields on cash and high rated fixed income investments. We believe economic growth, whilst not strong, should be broadly stable. After strong rises in 2019 the key headwind for shares is the starting point of relatively high valuations (particularly in New Zealand). Shares are also unlikely to receive further support from rate cuts in 2020 with most central banks on hold. The key risk for share markets is the resurfacing of political uncertainty and that growth and company earnings disappoint. Against this backdrop the investment team remains active to identify those companies which are attractively valued and which will exceed investor expectations.

KiwiSaver Aggressive Fund

Portfolio Manager: Stephen Johnston



The Fund gained 0.7% in December. Global share markets wrapped up 2019 with broad based gains, capping off a strong year. The year surpassed most investors' expectations with some markets registering their biggest yearly gains since the Global Financial Crisis.

The top contributor for the month was Japanese cloud-based accounting/payroll software developer Freee (+61.3%), that listed in Tokyo during December. Freee has a similar business model to local champion Xero but is 100% focused on serving small and medium sized businesses in Japan. Growth prospects are attractive given low penetration rates of cloud-based accounting and payroll software in Japan. Other strong performers included Italian payments company Nexi (+15.7%) and best in class US oil company EOG Resources (+18.1%).

The largest detractors were Constellation Software (-11.1%), a Toronto listed group that specialises in acquiring and managing a portfolio of software companies, and Japanese baby goods company Pigeon (-20.4%) after weaker than expected guidance.

In Australasia, positive contributors included gold company Northern Star Resources (+17.9%), after announcing an earnings accretive deal in Western Australia. AFG continued its strong run gaining a further 10% boosted by the recovering Australian housing market. AMA (-27.8%) was the worst performer after a weaker than expected trading update.

The global backdrop remains supportive for shares given gradually improving economic growth and low interest rates. Geopolitics remains the wildcard for 2020, with recent news from Iran a reminder we need to monitor global events closely.

‡Includes unlisted equity holdings of 2.16% *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 December 2019

Fund Performance

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	Since Fund inception (p.a.)	Unit price $	Fund size $
KiwiSaver Conservative Fund	0.03%	9.31%	6.71%	6.60%	9.08%	1.8485	124.0 M
KiwiSaver Balanced Fund	0.74%	17.70%	10.24%	9.59%	10.36%	2.5189	397.5 M
KiwiSaver Active Growth Fund^	0.96%	20.26%	12.21%	11.33%	12.82%	4.0943	1,607.6 M
KiwiSaver Aggressive Fund	0.67%	—	—	—	—	1.0478	61.2 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.
^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)	1.60%	31.64%	19.94%	16.93%	17.38%
S&P/ASX 200 Accumulation Index (AUD)	-2.17%	23.40%	10.26%	8.97%	10.02%
S&P/ASX 200 Accumulation Index (NZD)	-3.27%	22.41%	10.37%	8.86%	7.09%
MSCI World Index (local currency)*	2.28%	27.34%	11.80%	9.23%	11.92%
MSCI World Index (NZD)*	-2.00%	26.89%	13.82%	11.99%	13.80%
S&P/NZX 90-Day Bank Bill Rate	0.11%	1.68%	1.89%	2.31%	2.51%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	-0.21%	8.22%	4.30%	3.57%	3.59%
S&P/NZX NZ Government Bond Index	-1.89%	4.89%	5.01%	4.78%	4.21%

*With net dividends reinvested

Milford KiwiSaver Plan is the proud winner of multiple awards:

2018|2019 consumer. PEOPLE'S CHOICE Milford KiwiSaver Plan

Consumer NZ People's Choice Award – KiwiSaver

MORNINGSTAR Awards 2019

Morningstar Fund Manager of the Year - KiwiSaver Category, NZ

ZENITH FUNDSOURCE AWARDS FUND MANAGER OF THE YEAR 2019

Zenith FundSource Awards - Fund Manager of the Year

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

KiwiSaver Conservative Fund	KiwiSaver Balanced Fund
Westpac 2.22% 2024 1.63%	Spark New Zealand 1.76%
ANZ Bank Float 2024 1.50%	a2 Milk Company 1.59%
ASB Bank 1.83% 2024 1.43%	Contact Energy 1.50%
NZLGFA 1.5% 2029 1.41%	Microsoft Corp 1.22%
Westpac 2.6% 2020 1.36%	Alphabet 1.13%
Bank Of China 3% 2020 1.35%	Visa 1.11%
NAB Float 2024 1.34%	Transurban Group 0.93%
Vector 3.45% 2025 1.19%	HDFC Bank 0.91%
John Deere 1.75% 2024 1.18%	Mastercard 0.90%
ANZ Bank 3.03% 2024 1.04%	Amazon 0.88%

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 Active Growth Fund	KiwiSaver Aggressive Fund
Spark New Zealand 3.35%	Microsoft Corp 2.88%
a2 Milk Company 3.31%	Alphabet 2.77%
Contact Energy 3.16%	Visa 2.50%
iShares MSCI EAFE Min Vol ETF 2.63%	Mastercard 1.98%
EBOS Group 2.11%	Alibaba Group 1.95%
Visa 1.91%	Amazon 1.94%
Microsoft Corp 1.83%	HDFC Bank 1.78%
Summerset Group Holdings 1.71%	Apple 1.68%
HCA Holdings 1.54%	Freee 1.53%
Alphabet 1.52%	Taiwan Semiconductor 1.52%

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 $11.3 million invested in the Milford KiwiSaver Plan as at the end of December 2019.

Michael Higgins
Portfolio Manager

Investment Highlight - Australian Financial Group

AFG is one of Australia's largest mortgage broking groups. It has been a core holding since early 2017 when the share price was around $1.20. While it's been a bumpy ride, AFG has now returned about 160% inclusive of 45 cents in dividends over two years and has been one of our best performing companies in 2019.

Our initial investment went against the grain at the time given lending commitments in Australia were losing momentum in what was the beginning of a sharp and expected correction. What interested us was the depressed valuation given the weak economic climate, 30% of the market cap was held in cash, the increasing penetration of mortgage brokers in Australia (50% at the time) and the earnings potential of the AFG Securities business.

It was smooth sailing over 2017/18 as the business generated strong cash and retained a healthy fully franked 8% dividend despite a weakening property market. However, in early February 2019 the Royal Commission announced a shock recommendation which proposed that the borrower, not the lender should pay the mortgage broker a fee for originating a home loan. The implications of this change were wide reaching. Not surprisingly, all major banks traded 5% higher on the day given the expected reduction in competition while mortgage brokers like AFG cratered 30% from $1.27 to $0.90.

Both political parties were blindsided by the rogue recommendation (along with us!). The Liberal party came out strongly in favour of brokers, rejecting the consumer pays model given the obvious implication of a reduction in competition. A week later, the Labor party also rejected the recommendation instead proposing a larger upfront fee for the broker instead of an upfront fee and trail commission.

After the public backing of brokers by both political parties, we took the opportunity to increase our stake. We identified that the Royal Commission would likely be a significant positive for brokers like AFG given tighter regulation. When the UK went through a similar review in April 2014, broker originated loans ballooned to approximately 80%, as applicants faced longer interrogations about income and expenditure to ensure they could repay their loans.

In the latest home loan channel survey in Australia, 6 out of 10 residential mortgages are now originated using a broker. During a recent refinance of my own 3-year-old family home loan, my bank didn't even respond when I inquired over email about refinancing to a better interest rate. When I engaged a broker, I had three rate offers from major banks within a week that were all sharper. The bank I ended up choosing was a major bank that also offered a $3,500 cash incentive payment to move!

Mortgage brokers increase choice and competition between lenders which in many cases lead to better service levels and competitive pricing. Like the UK experience, we think the shift towards mortgage brokers is likely to continue in Australia.

Milford KiwiSaver Plan leading the pack on investment returns for the second year running

Murray Harris
Head of KiwiSaver

For most investors, KiwiSaver is a long-term investment and your choice of provider can make a big difference to your retirement. This is because there can be big differences between KiwiSaver providers and the after-fee returns they're generating for their clients.

Australian investment research company SuperRatings have recently published their annual research to reveal which KiwiSaver funds are providing the highest 'net benefit' to members. In other words, which funds are delivering the highest returns to their clients after deducting fund fees and tax.

We are pleased to report, that for the second year running SuperRatings has identified that our Active Growth Fund is the best value KiwiSaver growth fund in the country on a seven-year basis, delivering a net benefit in excess of $29,000 for a typical investor. This leaves the investor with over 35 per cent more in their KiwiSaver after fees and tax than the next fund.

Growth Funds Seven-Year Net Benefit Outcomes - Top 10

Scheme Name	Fund	Net Benefit
Milford KiwiSaver Plan	Active Growth Fund	$ 29,880
Aon KiwiSaver Scheme	Growth Fund****	$ 21,869
OneAnswer KiwiSaver Scheme	Growth Fund	$ 21,770
Kiwi Wealth KiwiSaver Scheme	Growth	$ 21,643
ANZ KiwiSaver Scheme	Growth Fund	$ 21,595
Fisher Funds KiwiSaver Scheme	Growth Fund	$ 21,371
ANZ Default KiwiSaver Scheme	Growth Fund	$ 20,647
ASB KiwiSaver Scheme	Growth Fund	$ 20,390
Westpac KiwiSaver Scheme	Growth Fund	$ 18,864
Fisher Funds TWO KiwiSaver Scheme	Growth Fund	$ 18,275

Source: SuperRatings press release 18 Dec 2019 found here. *Net Benefit outcomes are calculated over seven years and assume a contribution rate of 3.00%, contribution tax of 17.50%, salary of $50,000 p.a. and a starting balance of $20,000. ****Russell LifePoints® Growth Fund. SuperRatings only publicly released the top 10 funds. Please note past performance is not a guarantee of future performance

In addition to this, Milford's KiwiSaver Balanced Fund is again the best value KiwiSaver balanced fund on a seven-year basis, with a net benefit of in excess of $21,000. The Milford KiwiSaver Conservative Fund continues to perform well against its peers, however as it doesn't yet have a seven-year history it wasn't included in these results.

Thank you for your ongoing trust that you place in us to manage your hard-earned savings. We continue to work hard to manage risk, produce strong long-term returns and provide high quality client service.