MILFORD

Milford Investment Funds Monthly Review
February 2020

Market and Economic Review

Only a month into 2020 and investors have been reminded that sometimes risks can indeed appear out of thin air. The coronavirus international health emergency dominated financial news in January and its impact on financial markets has been seen in sharp price moves in shares, commodities, bonds and currencies.

Fund returns in the month were broadly positive, aided by a strong performance in Australian shares as well as increases in bond prices as investors sought the safety of government bonds.

We are looking for signs of improving global economic growth this year after the US-China trade war dented activity in 2019. Initial signs show that growth has stabilised, but the recovery so far looks to be modest. Indeed, that recovery is now called into question by the coronavirus outbreak as global travel and business activity is curtailed.

Anaemic economic growth has been quickly reflected in the level of global interest rates which remain close to all-time lows, helped by global central banks who continue to focus on below target inflation levels. Low interest rates are supporting bond and share markets the world over. Put simply, global investors have lots of cash to invest and there is a shortage of high-quality assets to invest into.

US shares have been strong performers, largely driven by US technology companies. Last month, companies such as Amazon, Apple and Microsoft (all Milford holdings) reported better than expected profits, allaying concerns about a slowdown. Milford's Global Equity Fund also benefitted from a falling NZ dollar over the month.

Australian and NZ shares performed relatively well in January, aided by weaker currencies. Next month sees local companies report profits and given the high valuations of local shares any company not meeting expectations may be punished by investors.

Predicting the outcome of situations like the coronavirus is difficult. Experience tells us that these events tend to be acute but short lived in terms of their economic and financial market impact. Given the outbreak is still developing more volatility is to be expected. In the medium term, we continue to see a constructive investing backdrop with very low interest rates and positive global growth.

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Conservative Fund

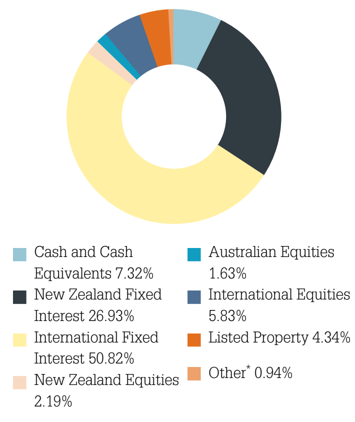
Portfolio Manager: Paul Morris

The Fund returned 1.3% in January (9.7% over 1-year), supported by strong contributions from both its bond holdings and its Australasian shares. Australasian and global bonds benefited from a material fall in market interest rates which pushed their prices higher. Global shares were mixed, as despite an improving earnings backdrop, the developing coronavirus crisis weighed on risk sentiment.

The Fund also benefitted from its small foreign currency exposure as the NZ dollar was weaker. Fund positioning had started the month less defensive relative to earlier last year, albeit still with less shares than the long run neutral. During the month we reduced this share exposure as valuations became stretched. We'll retain this slightly more cautious stance until we get some clarity on the coronavirus impact or valuations improve sufficiently. The Fund owns some protection via bond options to reduce the negative impact on capital from a move back up in market interest rates if the coronavirus crisis dissipates or if its economic impact is limited.

Looking forward, we remain cautiously optimistic on the outlook for returns, underpinned by low interest rates from accommodative central bank monetary policy. That said, we reiterate that given prevailing valuations across bonds and shares, medium-term returns are likely to be lower than seen last year.

Actual investment mix [1]



Diversified Income Fund

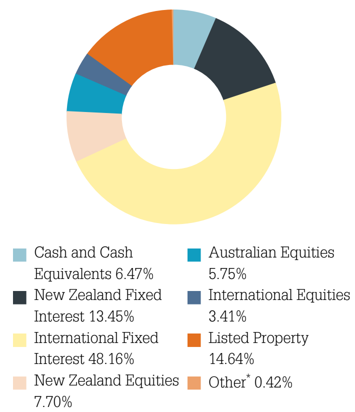
Portfolio Manager: David Lewis

The Fund started the year strongly, returning 1.3% in January to give a 13.4% gain over the past year. Returns were positive across all key asset classes for the Fund, with particular strength in Australia both in the share market (+5.0%), and corporate bonds (+1.6%). A key driver in Australia is lower interest rates, with the market now forecasting two more rate cuts by year-end, implying an official rate of just 0.25%.

Performance highlights in the share portfolio this month included Charter Hall Group (+16.1%), which announced higher earnings guidance following strong growth in its property funds management business, and Goodman Group (+11.4%). The Fund's new investments in the US water utility and railway sectors performed well, for example American Water Works (+10.9%) and Norfolk Southern (+7.3%). The worst performance of note was global shopping mall owner Unibail Rodamco-Westfield (-12.8%) which continues to face headwinds from weakness in the retail sector.

In fixed income, lower interest rates drove solid returns across NZ, Australian and global holdings, and we began to take profits in bonds where valuations now appear stretched (e.g. HSBC subordinated bonds). Other portfolio activity included reducing certain NZ property and retirement companies following strong performance and buying new senior bonds from ANZ.

The strategy at present remains modestly cautious. The coronavirus presents a risk to the outlook and it is likely to reinforce the need for lower interest rates globally. Those low interest rates should support performance over time for higher dividend paying shares. Hence, we are adding exposure in this area, with a focus on resilient high-quality companies.



*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.

Balanced Fund

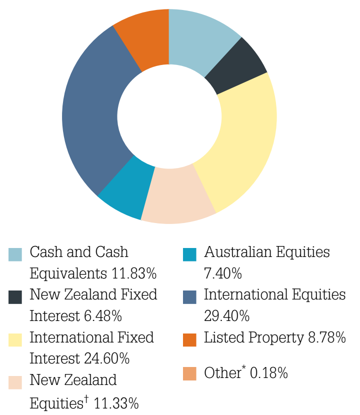
Portfolio Manager: Mark Riggall

The Fund returned 1.7% in January bringing the 1-year return to 16.8%. Given markets faced the coronavirus outbreak in January, the final return for the month is reasonably healthy. Global share markets started the year well and in the middle of the month we reduced some exposure after recognising that market sentiment was becoming extended.

The coronavirus outbreak blindsided investors and financial markets. The impact so far has been largely seen in commodity prices (e.g. oil falling) and Asian share markets where we have little exposure. Arguably the biggest move has been by investors seeking safety in government bonds, driving market interest rates back to multi-year lows (interest rates move inversely with bond prices). This supported performance in the Fund via our bond holdings. Our key share market exposures of NZ, Australia and the US also fared particularly well in the month, global share returns were also aided by a falling NZ dollar.

Previous experience tells us that these viral outbreaks tend to be acute but short lived in their impact on economies and markets. We still see a favourable medium-term backdrop of low interest rates and low but positive economic growth.

Actual investment mix [1]



Active Growth Fund

Portfolio Manager: Jonathan Windust

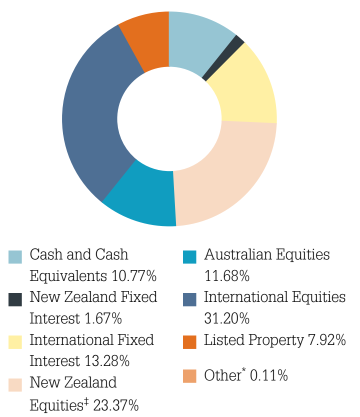
The Fund rose 1.7% in January benefiting from good performance of share and fixed income investments. Markets rose as bond yields fell and investors generally looked to buy shares in search of increased returns. Share markets reversed some of the gains late in the month due to concerns over the impact of the coronavirus.

Key performers during the month included income-producing shares Charter Hall Retail (+10.3%) and Goodman Group (+11.4%), US home builders DR Horton (+12.2%) and Lennar (+19.2%) and US software companies, Salesforce (+12.1%) and Microsoft (+7.9%). During the month the Fund added to home builders DR Horton and Lennar due to strong fundamentals for US housing and both companies' dominant market positions. These shares were rewarded after strong quarterly earnings results which beat analyst estimates.

Following strong gains during the month the Fund took profits on some of its top performing companies including Google's parent company Alphabet. In the short-term, markets are likely to focus upon the potential impacts of the coronavirus which may lead to increased volatility. However, whilst uncertain history tells us the impacts are generally short-term and have minimal medium-term market impact.

The medium-term outlook for shares remains supported by very low interest rates and generally stable economic growth. Key risks remain political uncertainty and that company earnings disappoint investor expectations. Against this backdrop the investment team remains active to identify those companies which are attractively valued and which will exceed investor expectations.

Please note this Fund is closed to new investors.

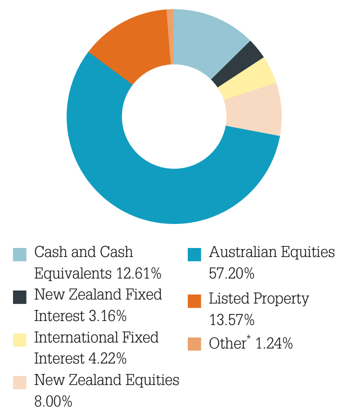


†Includes unlisted equity holdings of 0.31% ‡Includes unlisted equity holdings of 2.14% *Other includes currency derivatives used to manage foreign exchange risk.
[1]The actual investment mix incorporates the notional exposure value of equity derivatives and credit default swaps, where applicable.

Australian Absolute Growth Fund

Portfolio Manager: William Curtayne & Wayne Gentle

Actual investment mix [1]



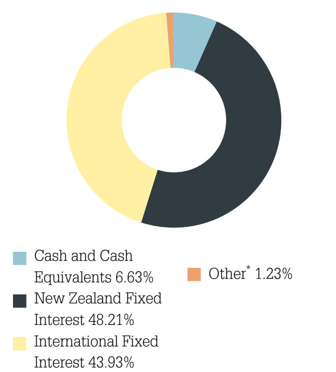
The Fund had a strong start to the year, up 2.3% in January, as the Australian market rallied sharply before giving up some gains later in the month when the coronavirus emerged as a serious concern. Oil was particularly weak as the market anticipates weaker growth from China and air travel. This saw some losses in our energy and other resources companies that declined in-line with their associated commodity prices. These situations are generally temporary, and demand recovers once the outbreak is contained. We will monitor the situation closely to see if any changes in our holdings are required as new information emerges.

Property owner and manager Charter Hall Group was our largest winner for the month, as it continues to benefit from lower interest rates and increased demand for real estate assets. We expect continued strong earnings growth from the company this year. Our biggest detractor was Sealink Travel Group, which continued to sell-off as the local tourism industry continues to be impacted by bushfires and coronavirus. As mentioned last month, we are not concerned about lasting impacts on Sealink's business.

The Fund had sold or reduced certain positions over January as the market climbed to new highs and the investments reached our valuation targets. In the coming month we have half-year results which should expose some opportunities to reinvest our capital.

Trans-Tasman Bond Fund

Portfolio Manager: Paul Morris



An improving Australasian growth outlook has been offset by global developments, notably coronavirus. Market interest rates fell, reversing December's move higher, as central banks may need to cut interest rates. The increase in bond prices underpinned a strong Fund return of 1.3% in January.

After lagging offshore corporate bond outperformance over governments in late 2019, Australasian corporate bonds proved resilient to weakness offshore in January. They generally matched or outperformed government/local authority bonds, especially in New Zealand where likely increased government/government related issuance is a headwind versus potentially a more balanced supply/demand outlook for corporate bonds.

We are constructive on Australasian senior bank bonds and participated in new issues from ANZ, NAB, Westpac and BNZ, plus a new Dexus (Australian property) bond. Some Australasian corporate bonds may be moderately attractive compared to offshore bonds (where Fund exposure remains below long run levels) but valuations are historically expensive. This limits the valuation buffer against myriad economic risks. Therefore lower rated and subordinated bond exposures remain below long run averages. Interest rate exposure is slightly more than benchmark/neutral but put options should help reduce the negative impact from a move higher in interest rates.

*Other includes currency derivatives used to manage foreign exchange risk.

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Global Corporate Bond Fund

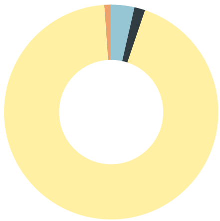
Portfolio Manager: Paul Morris

Market interest rates fell in January on expectations central banks may cut interest rates due to negative growth impacts from the coronavirus. Government bonds were a notable beneficiary, generally outperforming corporate bonds due to their safe haven status. High yield rated bonds underperformed investment grade bonds. The Fund was slightly defensively positioned given elevated corporate bond valuations. It therefore avoided some of the corporate bond underperformance and returned 1.2% in the month (0.3% more than its benchmark).

The strategy of selling expensive holdings to buy better value new or existing bonds continued. In January that included adding to JPMorgan, ESB (Irish utility) and NXPI (semi-conductors) holdings. Holdings in high yield rated subordinated bank holdings were reduced due to further outperformance versus the rest of the high yield market. Irrespective of cheaper valuations corporate bonds remain historically expensive.

Therefore, with increased economic uncertainty we retain slightly defensive settings; less high yield bonds than neutral and a preference (where available) for Australian dollar bonds of global issuers instead of their more expensive US dollar bonds. Interest rate exposure is close to the benchmark but the Fund's US treasury put options should help reduce the negative impact from a move higher in global interest rates.

Actual investment mix [1]



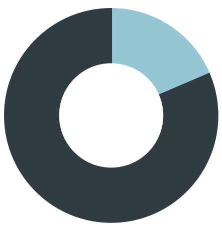
Cash Fund

Portfolio Manager: Paul Morris

In January the Fund continued to successfully deliver on its objective to return in excess of the Reserve Bank of New Zealand (RBNZ) Official Cash Rate (OCR) after fees. It returned 0.13% in the month which was 0.04% above benchmark.

There was no RBNZ meeting in January. The market is expecting the OCR to remain at 1.00% at the next RBNZ meeting in February when the RBNZ will also release its Monetary Policy Statement (MPS), which includes its updated economic forecasts. Since the last MPS in November, economic data has been stronger than the RBNZ expected and the Government announced an increase in infrastructure spending with further stimulus expected to come in the budget this year. Notwithstanding this, the market currently expects a reasonable possibility of a 0.25% cut this year but timing is uncertain.

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 fund on request unlike term deposits) and low risk alternative to bank term deposits.



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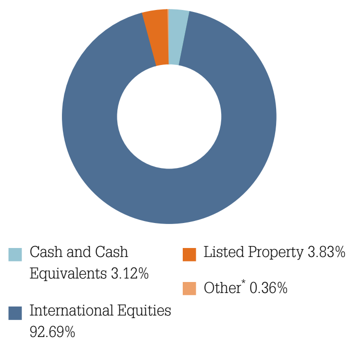
Global Equity Fund

Portfolio Manager: Felix Fok

Actual investment mix [1]



Global Equity climbed 3.2% in January, outperforming the market by 1.5%. The Fund is 50% exposed to major overseas currencies and during the month a weak NZ dollar added to gains from international shares.

In a mixed month for global shares, large cap technology companies were in favour again as investors rotated back into growth companies, including Microsoft (+7.9%), Google-parent company Alphabet (+7.3%), and Amazon (+8.7%). Both Microsoft and Amazon also reported strong quarterly results during the month. Visa (+5.9%) and Mastercard (+5.9%) continue to benefit from healthy consumer spending and growth in digital transactions around the world. These dominant business models have a privileged position, sitting in between banks, consumers and merchants.

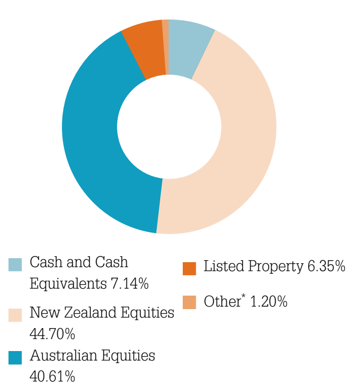
The largest detractor was Indian private bank HDFC Bank (-9.6%), despite releasing better than expected quarterly results, with earnings growing 31%, the highest in eight years. HDFC bank is in the process of appointing a successor to current CEO Aditya Puri, whose tenure ends in October after 27 years at the helm.

After a strong December, EOG Resources (-12.7%) reversed course in January as crude oil prices fell to a three-month low, in response to coronavirus travel bans intensifying seasonal weakness in crude oil demand.

The economic backdrop remains one of slow economic growth, although lower interest rates are supporting share markets. We expect some volatility in the short term given the uncertainty surrounding the potential impact of the coronavirus. The portfolio remains focused on our key investment themes and dominant companies.

Trans-Tasman Equity Fund

Portfolio Manager: Sam Trethewey & Wayne Gentle



The Fund has started the new year strongly. The Fund returned 4.0% in January driven by strong returns from our selected Australian holdings. The ASX 200 Accumulation Index rallied 5.0% on positive sentiment following the trade deal in December while the NZX 50 Index rallied 2.0%.

Key winners included buy now pay later provider Afterpay (+31.7%), biotech company CSL (+13.2%) and property exposures Charter Hall Group (+16.1%) and Goodman Group (+11.4%). The Fund also benefited from minimal exposure to stocks impacted by the increasing coronavirus concerns late in the month. These are primarily Chinese tourism and export orientated companies. While it is very difficult to anticipate exactly how the coronavirus situation will play out, we have been monitoring the situation closely and have positioned the Fund accordingly. We exited Sydney Airport and reduced our holding in Auckland Airport late in the month. Other changes to the Fund include reducing our position in local telco Spark NZ, miner Rio Tinto and adding to our holding in Contact Energy.

In February a large number of our holdings will report financial results for the past six months. The results provide an opportunity to reconfirm our conviction around the medium-term prospects for each holding. We continue to work hard to ensure the Fund remained positioned in stocks offering attractive returns relative to their risk and away from stocks where we see downside risk to earnings or stretched valuations.

*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.

Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins

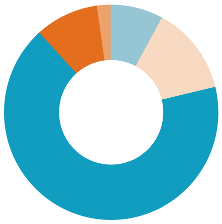
The Australian market had an optimistic start to the year, before giving up some gains as the coronavirus emerged as a serious concern. The Fund returned 3.1% for the month, slightly underperforming the Small Ordinaries benchmark.

The performance was led by Australasian and US debt collector Credit Corp (+14.9%) which delivered a strong first half result with upgraded debt purchasing guidance. While Credit Corp is up over 50% in the last 12 months, we continue to like the medium-term expansion opportunity in the US; Charter Hall Group (+16.1%) continued its strong performance having upgraded guidance materially in December; and the global payments provider EML Payments (+15.9%) announced it had won a tender to provide its re-loadable card program to NSW Health.

Laggards included SeaLink (-10.1%) after the bushfires impacted its Kangaroo Island operations. We bought more given the diversification Transit Systems bus operations provides since it was acquired in December; Collins Foods (-4.2%) sold-off on general market volatility.

While we expect coronavirus to provide a degree of instability for financial markets, these events are generally temporary, which can provide opportunities to find oversold companies. In the coming month we have half-year results which will throw up some further opportunities to reinvest our capital. We remain cautiously optimistic into 2020.

Actual investment mix [1]



Upcoming Distributions	Target	Payment Date
Conservative Fund	0.5 cents (Quarterly)	16/04/2020
Diversified Income Fund	1.1 cents (Quarterly)	20/02/2020
Trans-Tasman Bond Fund	0.45 cents (Quarterly)	19/03/2020
Global Corporate Bond Fund	0.45 cents (Quarterly)	19/03/2020
Trans-Tasman Equity Fund	1.5 cents (Biannually)	19/03/2020

*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 Investment Funds Monthly Review as at 31 January 2020

Fund Performance

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	Since Fund inception (p.a.)	Unit price $	Fund size $
Multi-Asset Funds							
Conservative Fund*	1.31%	9.71%	7.14%	—	6.90%	1.1947	379.2 M
Diversified Income Fund*	1.33%	13.44%	9.69%	9.74%	11.52%	1.8480	2,501.1 M
Balanced Fund	1.66%	16.82%	10.61%	9.32%	10.21%	2.5068	827.9 M
Active Growth Fund#	1.65%	19.03%	12.53%	11.11%	12.78%	4.1152	1,232.4 M
Australian Absolute Growth Fund	2.25%	17.52%	—	—	9.03%	1.1773	202.8 M
Cash and Fixed Income Funds							
Trans-Tasman Bond Fund*^	1.33%	6.82%	5.48%	4.93%	5.67%	1.1784	713.2 M
Global Corporate Bond Fund*^	1.21%	8.53%	5.51%	—	5.51%	1.0826	666.1 M
Cash Fund	0.13%	—	—	—	—	1.0167	47.4 M
Equity Funds							
Global Equity Fund†	3.19%	23.68%	12.61%	8.32%	9.04%	1.7853	683.7 M
Trans-Tasman Equity Fund*	4.02%	30.51%	19.05%	14.93%	12.12%	3.3488	487.9 M
Dynamic Fund	3.09%	26.74%	15.67%	13.53%	13.66%	2.2272	317.1 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.
Inception dates for the Funds: Active Growth Fund: 1 October 2007, Trans-Tasman Equity Fund: 1 October 2007, Balanced Fund: 1 April 2010, Diversified Income Fund: 1 April 2010, Global Equity Fund: 12 April 2013, Dynamic Fund: 1 October 2013, Trans-Tasman Bond Fund: 2 December 2013, Conservative Fund: 1 September 2015, Global Corporate Bond Fund: 1 February 2017, Australian Absolute Growth Fund: 1 March 2018, Cash Fund: 1 March 2019.
*Performance figures include the reinvestment of the Funds' distribution.
^Returns prior to 1 March 2018 are from when the Fund was previously offered to wholesale investors only and have been adjusted for current Fund charges.
†Returns prior to 1 October 2018 are from when the Fund was structured to achieve an absolute return.
#The Active Growth Fund is closed to new investors.

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)	1.97%	31.62%	19.74%	16.66%	16.95%
S&P/ASX 200 Accumulation Index (AUD)	4.98%	24.72%	12.36%	9.33%	10.02%
S&P/ASX 200 Accumulation Index (NZD)	4.23%	22.71%	12.32%	8.53%	7.20%
MSCI World Index (local currency)*	-0.25%	18.44%	11.23%	9.29%	11.05%
MSCI World Index (NZD)*	3.61%	26.18%	16.19%	11.53%	13.87%
S&P/NZX 90-Day Bank Bill Rate	0.11%	1.59%	1.86%	2.27%	2.50%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	1.80%	9.01%	5.05%	3.55%	3.94%
S&P/NZX NZ Government Bond Index	2.02%	6.35%	5.67%	4.74%	4.56%

*With net dividends reinvested

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

Multi-Asset Funds

Conservative Fund	Diversified Income Fund	Balanced Fund	Active Growth Fund	Australian Absolute Growth Fund
NZLGFA 1.5% 2029 1.46%	Spark New Zealand 2.10%	Spark New Zealand 1.59%	Contact Energy 3.30%	BHP Group 5.59%
ASB Bank 1.83% 2024 1.46%	Contact Energy 1.65%	Contact Energy 1.56%	Spark New Zealand 3.23%	Woodside Petroleum 4.60%
Westpac 2.6% 2020 1.36%	Transurban Group 1.57%	a2 Milk Company 1.54%	a2 Milk Company 3.22%	Charter Hall Group 4.12%
BNZ 2.16% 2025 1.22%	QBE 6.75% 2044 1.51%	Microsoft Corp 1.26%	iShares MSCI EAFE Min Vol ETF 2.62%	National Australia Bank 3.40%
Vector 3.45% 2025 1.22%	Mirvac Group 1.40%	Alphabet 1.16%	EBOS Group 1.84%	Aristocrat Leisure 2.96%
John Deere 1.75% 2024 1.21%	Westpac 2.63% 2020 1.30%	Visa 1.05%	Microsoft Corp 1.74%	a2 Milk Company 2.81%
ANZ Bank 3.03% 2024 1.06%	Charter Hall Education Trust 1.19%	Amazon 0.95%	Summerset Group Holdings 1.62%	Australian Finance Group 2.77%
ANZ Bank 1.6743% 2025 0.99%	Bank of America 3.458% 2025 1.07%	Mastercard 0.93%	Visa 1.54%	CSL 2.57%
Westpac 2.22% 2024 0.99%	JPMorgan 1.09% 2027 1.04%	Transurban Group 0.90%	Fisher & Paykel Healthcare 1.40%	Macquarie Group 2.54%
ANZ Bank Float 2024 0.96%	Aventus Retail Property 1.04%	Fisher & Paykel Healthcare 0.87%	HCA Holdings 1.39%	AMA Group 2.35%

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).

Cash and Fixed Income Funds

Trans-Tasman Bond Fund	Global Corporate Bond Fund	Cash Fund
NZLGFA 1.5% 2029 3.18%	AT&T 3.45% 2023 2.06%	Auckland Airport CD 2020 6.85%
ASB Bank 1.83% 2024 2.96%	John Deere 1.75% 2024 1.97%	Kiwibank 2.1% 2020 6.56%
BNZ 2.16% 2025 2.54%	Kerry Group 0.625% 2029 1.95%	TSB Bank CD 2020 6.51%
ANZ Bank 3.03% 2024 2.37%	Dell Float 2023 1.88%	Westpac CMD 2019 6.44%
ANZ Bank Float 2024 2.15%	Danaher Corp 0.45% 2028 1.87%	Fonterra CD 2020 6.32%
ANZ Bank 1.6743% 2025 1.96%	Seagate 4.75% 2025 1.81%	Mercury CD 2020 6.32%
Westpac 2.22% 2024 1.90%	NXP BV 4.3% 2029 1.81%	SBS Bank CD 2020 6.32%
Housing NZ 3.36% 2025 1.84%	McDonald's 3% 2024 1.73%	Port of Tauranga CD 2020 6.31%
John Deere 1.75% 2024 1.84%	FBG Finance 3.25% 2022 1.56%	ANZ 2.14% 2020 5.71%
ING Group 1.45% 2024 1.83%	QBE 6.75% 2044 1.55%	Transpower CD 2020 5.06%

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).

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

Equity Funds

Global Equity Fund	Trans-Tasman Equity Fund	Dynamic Fund
Microsoft Corp 4.05%	a2 Milk Company 7.58%	Credit Corp Group 3.97%
Alphabet 3.91%	Fisher & Paykel Healthcare 6.31%	Australian Finance Group 3.25%
Amazon 3.49%	CSL 4.07%	Bapcor 3.16%
Mastercard 3.42%	BHP Group 3.63%	Seven Group Holdings 3.05%
Visa 3.32%	Ryman Healthcare 3.53%	EML Payments 2.78%
CME Group 2.86%	Contact Energy 3.36%	Collins Foods 2.68%
Apple 2.77%	Mainfreight 2.86%	IDP Education 2.66%
HDFC Bank 2.67%	Spark New Zealand 2.71%	EQT Holdings 2.57%
Taiwan Semiconductor 2.39%	National Australia Bank 2.69%	Northern Star Resources 2.50%
Martin Marietta 2.26%	Infratil Ltd 2.64%	Evolution Mining 2.48%

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 and Milford staff have approximately $30.4 million invested across our Unit Trust PIE Funds as at the end of January 2020.

Stephanie Perrin
Investment Analyst

Investment Highlight - Home Depot "How Doers Get More Done"

Home Depot is a US big-box home improvement chain, similar to Mitre 10 or Bunnings (without the sausage sizzles). Over the last 10 years, Home Depot shares have delivered ~3x the returns of the broader US S&P 500 index. I visited their headquarters and a Home Depot store in Atlanta to learn more.

Home Depot has 2,290 stores across the US, Canada and Mexico (in comparison, Mitre 10 and Bunnings have about 80 and 50 stores in NZ, respectively) and although it is the market leader, it still only has ~15% market share of the NZ$1tr home improvement market (that's ~3x the size of NZ's GDP). Around 55% of the market is made up of smaller and more local players, meaning there is plenty of runway for Home Depot to take share.

Strong US housing market fundamentals are a positive for Home Depot. The unemployment rate is near 50-year lows, wage growth is steady, households have less debt servicing obligations and mortgage rates are attractive. But this strong demand is not being met by supply: the number of homes for sale are near 30-year lows and new builds are limited by labour shortages. This imbalance of demand and supply leads to rising house prices and as a result, homeowners feel more comfortable investing in renovations. In addition, over half of US homes are more than 40 years old, leading to more repairs and Home Depot visits. Home Depot's strategy of focusing on the "Pro" customer has also paid off, as homeowners shift from "Do-It-Yourself" to "Do-It-For-Me".

Despite being the dominant player, Home Depot is not one to become complacent. At the end of 2017, they announced a US$11bn strategic investment program to become a more digital-centric retailer, creating a seamless experience for customers across online and offline.

However, what really stood out on my visit, was the incredible culture Home Depot has created. This culture is affectionately referred to as being "orange-blooded", inspired by the familiar orange apron store associates wear and their passion was obvious during my store visit.

Home Depot invests in wages, benefits, training, and career development, a commitment evidenced by the fact that over 90% of all store leaders began their careers as hourly associates. Everyone, including senior management, spends time working in-store. Home Depot's founder said, "if we take care of our associates, they'll take care of our customers, and everything else will take care of itself" and this belief continues to form the backbone of Home Depot today.

Company visits are a critical part of our research process because although there are many aspects of a company that can be analysed from behind a computer in NZ, it is difficult to truly understand a company's culture without experiencing it first-hand.

Home Depot's dedicated "Pro" area.

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