



Milford KiwiSaver Plan 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 shares 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.

KiwiSaver Conservative Fund

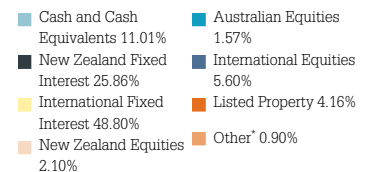
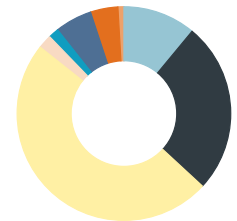
Portfolio Manager: Paul Morris

The Fund returned 1.3% in January (9.5% 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



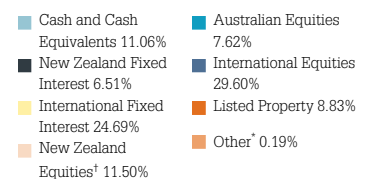
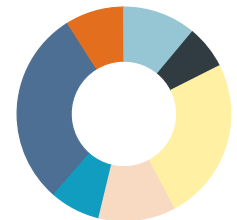
KiwiSaver Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 1.7% in January bringing the 1-year return to 17.0%. 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.



[†]Includes unlisted equity holdings of 0.31% *Other includes currency derivatives used to manage foreign exchange risk.

¹The 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

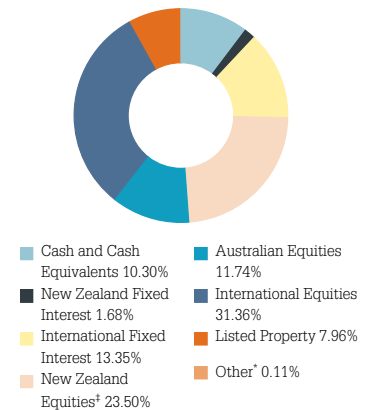
The Fund rose 1.7% in January benefiting from good performance of share and fixed income investments. Markets rose as yields fell and investors generally looked to buy shares in search of increased returns. Share markets reversed some of the gains late in the month due to concerns over the impact of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

Actual investment mix ¹



KiwiSaver Aggressive Fund

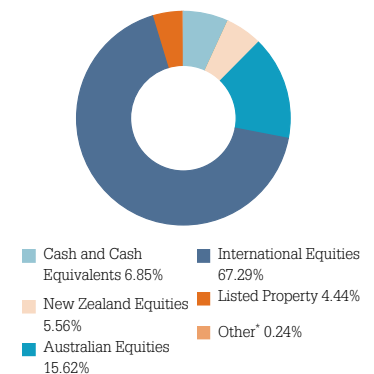
Portfolio Manager: Stephen Johnston

The Fund gained 3.0% in January. It was a rocky start to 2020, with share markets reacting negatively to the emerging threat from the coronavirus. The weak NZ dollar was a boost to the Fund's returns, increasing the value of our offshore holdings.

In a mixed month for global shares, large cap US technology companies outperformed and were key positive contributors. Top contributor was US tech giant Microsoft (+7.9%) that delivered another strong quarter of earnings, as growth was maintained in their cloud business Azure and there was healthy demand for Windows 10. Other strong performers included Alphabet (+7.3%), Visa (+5.9%) and Amazon (+8.7%). 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.

In Australasia, outperformers included biopharmaceutical company CSL (+13.2%), Australian REIT Charter Hall Group (+16.1%) and large retailer Woolworths (+15.7%). Woolworths received a boost with the decision of competitor Kaufland to exit Australia. While in NZ, Fisher & Paykel Healthcare (+5.0%) and Spark (+7.6%) also performed well.

The global backdrop remains supportive for shares given gradually improving economic growth and low interest rates. Short term, volatility is likely to increase given the uncertainty surrounding the potential impact of the coronavirus.



[†]Includes unlisted equity holdings of 2.16% ^{*}Other includes currency derivatives used to manage foreign exchange risk.

¹The actual investment mix incorporates the notional exposure value of equity derivatives and credit default swaps, where applicable.

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	1.28%	9.50%	6.98%	6.57%	9.16%	1.8721	130.5 M
KiwiSaver Balanced Fund	1.67%	17.05%	10.78%	9.53%	10.46%	2.5608	410.5 M
KiwiSaver Active Growth Fund	1.67%	18.76%	12.62%	11.29%	12.88%	4.1622	1,650.8 M
KiwiSaver Aggressive Fund	3.00%	—	—	—	—	1.0790	73.0 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.

^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

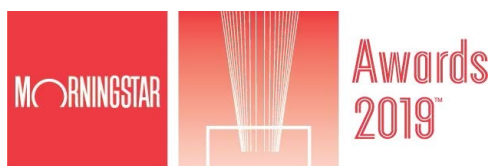
	Past month	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)
S&P/NZX 50 Gross Index (with imputation credits)	1.97%	31.62%	19.74%	16.66%	16.95%
S&P/ASX 200 Accumulation Index (AUD)	4.98%	24.72%	12.36%	9.33%	10.02%
S&P/ASX 200 Accumulation Index (NZD)	4.23%	22.71%	12.32%	8.53%	7.20%
MSCI World Index (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

Milford KiwiSaver plan 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 Conservative Fund	KiwiSaver Balanced Fund
NZLGFA 1.5% 2029 1.40%	Spark New Zealand 1.61%
ASB Bank 1.83% 2024 1.40%	Contact Energy 1.57%
Westpac 2.6% 2020 1.31%	a2 Milk Company 1.57%
BNZ 2.16% 2025 1.18%	Microsoft Corp 1.27%
Vector 3.45% 2025 1.17%	Alphabet 1.17%
John Deere 1.75% 2024 1.16%	Visa 1.06%
ANZ Bank 3.03% 2024 1.02%	Amazon 0.95%
ANZ Bank 1.6743% 2025 0.95%	Mastercard 0.93%
Westpac 2.22% 2024 0.95%	Transurban Group 0.91%
ANZ Bank Float 2024 0.92%	Fisher & Paykel Healthcare 0.89%

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
Contact Energy 3.32%	Microsoft Corp 3.12%
Spark New Zealand 3.24%	Alphabet 2.98%
a2 Milk Company 3.24%	Visa 2.59%
iShares MSCI EAFE Min Vol ETF 2.64%	Amazon 2.09%
EBOS Group 1.85%	Mastercard 2.06%
Microsoft Corp 1.75%	Alibaba Group 1.86%
Summerset Group Holdings 1.63%	CME Group 1.72%
Visa 1.55%	McDonald's 1.68%
Fisher & Paykel Healthcare 1.41%	Apple 1.66%
HCA Holdings 1.40%	HDFC Bank 1.60%

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 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.

The Great NZ Super Debate

The age at which Kiwis are entitled to New Zealand Superannuation has been a regular headline grabber, debating whether the retirement age is right, or whether it should be raised.

The Review of Retirement Income Policies released recently by the Commission for Financial Capability took a U-turn on the age of NZ Super eligibility, saying it should remain at 65.

They see the need to consider both the impact on the well-being of Kiwis, as well as the financial sustainability of NZ Super for the government.

Whatever happens, NZ Super is intended to provide for a basic standard of living in retirement. If people want more luxuries and financial freedom, they'll need a 'nest-egg' to supplement their super.

KiwiSaver is the main vehicle for people to build this nest-egg over their working life, but research suggests the minimum 3% contribution rate still won't be enough for most. If we look at some of the most successful retirement savings systems in the world (Australia, Canada, UK) they are saving closer to 10% of their incomes.

Think of it as deferring some spending today, to enjoy the benefits in the future. As the table below shows, an extra one or two percent saved now can make a significant difference to the nest-egg you'll have to enjoy in retirement.

A KiwiSaver member earning \$50,000 p.a. will contribute the following dollar-amounts per week to their account at each of the contribution rates. The second row of the table shows the potential KiwiSaver balance at age 65 of each contribution rate*

KiwiSaver Contribution Rate	3%	4%	6%	8%	10%
\$50,000	\$29	\$38	\$58	\$77	\$96
KiwiSaver balance at age 65	\$300,606	\$336,478	\$408,223	\$479,967	\$551,712

*\$50,000p.a. Income, Initial Balance of \$20,000, Age of 40, Investment returns of 6%p.a., Employer contribution rate of 3%.

Where your financial situation allows, every KiwiSaver member should endeavour to contribute more than the minimum of 3%. The rewards of that could mean a much more enjoyable retirement regardless of what happens in the NZ Super debate.



Murray Harris
Head of KiwiSaver



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