MILFORD

# Milford KiwiSaver Plan Monthly Review
September 2020

## Market and Economic Review

Milford's Funds recorded another strong month of performance driven by higher share prices – most notably in the US. Large technology companies continued their strong trend in August, but our investment team has been looking to identify and invest in companies that might benefit as the global economy starts to recover.

Global consumer spending has surged since May, driven by pent up demand for goods. Electronic payment companies capture a significant slice of this spending, even if it is done online. Salesforce.com (up 39.9%), reported good results as corporates continue to embrace digital transformation (i.e. move more of their activities online).

Recent investments in Spanish airport operator Aena were rewarded as the stock rallied 13.4% in August as investors begin to look beyond the current malaise in global travel. Australia saw companies report results in August and investors rewarded the more growth orientated small cap companies. In Australia, investors were looking to buy companies that might benefit from a reopening, Collins Foods Group (owner of KFC franchises) was up 9.3% in the month.

In NZ too, Milford's funds benefitted from exposure to recovery stocks in August. Two examples are Summerset (+11.0%) retirement villages due to their exposure to the strong NZ housing market and Vista Group's (+43.0%) exposure to climbing global cinema attendance. Global government bond markets broadly fell in August reflecting increased inflation expectations from investors. Our bond funds delivered positive returns though due to their larger exposure to corporate bonds, which outperformed government bonds. NZ government bonds outperformed global and Australian bonds due to further accommodating monetary policy from the Reserve Bank of New Zealand.

As we look ahead, there are signs that we are becoming more adept at managing the COVID-19 pandemic. Progress on a vaccine plus more effective testing and management strategies should improve the outlook for some businesses that have struggled over the past six months. Whilst uncertainty remains high, we look for signs of a sustainable economic recovery and companies that will benefit from this.

## KiwiSaver Cash Fund

**Portfolio Manager: Paul Morris**

Short-dated NZ Dollar bank bills, a reflection of interbank funding levels, may be close to unchanged in August but that does not reflect that the interest rate market is now starting to price in a real probability of a negative Official Cash Rate (OCR) next year.

This expectation is due to August's Reserve Bank of New Zealand (RBNZ) Monetary Policy Statement being unambiguous in outlining the RBNZ's wish to bring market and retail interest rates lower. We would however reiterate previous commentary that even if there was to be a negative OCR, the Fund should still be able to deliver a positive and low risk return. Indeed, the RBNZ were clear to state that they do not anticipate retail rates going negative. In the future that should therefore allow the Fund sufficient alternatives to continue to deliver a positive return.

These 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 remains an attractive, tax efficient, liquid and low risk alternative to bank term deposits.

### Actual investment mix [1]

- Effective Cash# 23.80%
- New Zealand Fixed Interest 76.20%
- Other* 0%

# The actual cash held by the Fund is 23.80%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

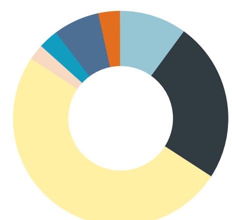
## KiwiSaver Conservative Fund

**Portfolio Manager: Paul Morris**

The Fund posted another strong month, returning 1.1%, with bonds and shares both contributing positively.

Shares were supported by better than expected second quarter results, and the improving economic backdrop. There was notable performance from the Fund's global shares which are weighted towards growth shares with many setting new record highs. There was also strong performance from its Australian property shares while NZ utilities recovered from the news of the Tiwai smelter closure. Global government bond markets were weaker, but the Fund's exposure remains mainly to corporate bonds which outperformed, recovering more of March's weakness. NZ bonds also materially outperformed thanks to a very supportive Reserve Bank of New Zealand.

During the month we slightly increased exposure to shares as our confidence in the economic recovery has incrementally improved. We do however remain wary that bond and share valuations are no longer cheap. Therefore, given the Fund's conservative risk profile and myriad prevailing uncertainties we have continued to hold a slightly cautions Fund setting, fewer shares than the long-run neutral. That said, we reiterate previous commentary that there remain opportunities to find attractively priced shares which should deliver reasonable but lower-risk returns and allow the Fund to keep up with the broader market. Moreover, we believe that given the extent of monetary and fiscal policy support there is still room for further, albeit more modest, gains from corporate bonds.



- Effective Cash# 10.08%
- New Zealand Fixed Interest 24.10%
- International Fixed Interest 50.09%
- New Zealand Equities 2.38%
- Australian Equities 2.98%
- International Equities 6.93%
- Listed Property 3.23%
- Other* 0.21%

# The actual cash held by the Fund is 6.85%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

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

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

# KiwiSaver Moderate Fund

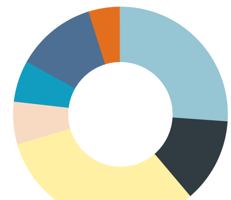
**Portfolio Manager: Mark Riggall**

The Fund returned 1.5% in August. Performance was driven by positive returns from most of the investments in the Fund.

Investments in US growth companies and Australian small companies delivered high returns, helping performance despite the modest exposure to these assets. Larger investments in Australian property stocks delivered solid gains whilst NZ utility companies also performed well, recovering from the news of the Tiwai aluminium smelter closure. Global government bond markets were broadly weaker but the Fund's exposure is mainly to corporate bonds which outperformed. These bonds continue to recover from March weakness and enabled the bond part of the Fund to deliver positive returns in the month. NZ bonds were relatively strong in August owing to continued support from the Reserve Bank of New Zealand's supportive monetary policy.

Broad exposure to shares increased in the month, particularly to shares that will benefit from a more sustained economic expansion and those that offer higher dividends. Looking ahead, the stretched valuations of both bond and share markets justify a slightly cautious investment approach. However, given low interest rates and support from government policy, we continue to look for attractively valued companies that can benefit as the global economy gets back on its feet.

## Actual investment mix [1]



- Effective Cash# 26.13%
- New Zealand Fixed Interest 12.68%
- International Fixed Interest 31.59%
- New Zealand Equities 6.40%
- Australian Equities 6.24%
- International Equities 12.05%
- Listed Property 4.72%
- Other* 0.19%

# The actual cash held by the Fund is 20.73%. 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 2.3% in August, bringing the 1-year return to 6.6%.

Large US technology stocks continue to perform well, and these companies have been a significant contribution to returns in the past few months. Considering this performance, exposure to US companies has been steadily reduced, although they remain a key part of the portfolio. Local share markets were muted at a headline level, but company results reported in August saw diverging fortunes for Australian businesses with small (higher growth) company shares handsomely outperforming large ones - a benefit to the Fund via the Dynamic Fund. In NZ we saw a resurgence in companies that benefit from a re-opening of the economy, for example Summerset (a key beneficiary of a strong housing market) and Vista Group (recovering as global cinema audiences rebound). Although global government bond markets fell in August, the Fund's increased exposure to corporate bonds delivered positive returns for the income portfolio.

Looking ahead, a key question is the strength and sustainability of the global economic recovery and finding attractively valued companies that may benefit from that. This is a change from the past few months where companies that benefit from social distancing and working from home have been standout winners.

The Fund has been increasing its investments in shares, but these are relatively defensive in nature - with interest rates low any company with an attractive and sustainable dividend yield should be more sought after going forward.

- Effective Cash# 16.15%
- New Zealand Fixed Interest 5.93%
- International Fixed Interest 23.82%
- New Zealand Equities† 12.50%
- Australian Equities 11.82%
- International Equities 21.76%
- Listed Property 7.76%
- Other* 0.26%

# The actual cash held by the Fund is 6.20%. 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.

# KiwiSaver Active Growth Fund

**Portfolio Manager: Jonathan Windust**

The Fund rose 3.5% in August benefitting from the performance of share markets and in particular global shares which were up 6.3%. Shares continue to benefit from strong stimulus from central banks and governments and as investors look for an alternative to very low returns on cash. Strong retail investor demand for high growth shares boosted valuations to very high levels.

Key positives during the month were US software company Salesforce (+39.9%) and Chinese company Alibaba (+14.3%). Salesforce rose following a strong result with revenue rising 29.9%, illustrating strong demand for its products despite an uncertain environment. Alibaba rose following its result where it reported a 34% increase in sales driven by strong eCommerce sales. We believe Alibaba remains well positioned to continue to grow and is reasonably valued. The Fund focus has started to move away from the short-term growth winners to shares that have been left behind and will rebound from an eventual vaccine and recovery in economic activity. A key addition during the month was Spanish airport owner Aena, which has a focus on short-hall traffic, a strong balance sheet and a very attractive valuation that could rebound strongly as investors start to look forward into a post-COVID world.

The short-term outlook for shares is tricky with tailwinds of government stimulus and low interest rates but headwinds of an uncertain economic outlook and valuations that in some cases have started to become extreme. This backdrop may see shares continue to grind higher as investors look to put money to work and chase market returns but it does leave markets susceptible to pull backs. The strategy of the Fund is to remain active and invest in a combination of growth companies which we believe are reasonably priced, and more attractively valued companies including those which offer attractive dividends. The Fund remains on the cautious side given the uncertain environment and the recent rise in share market valuations; however, we remain excited about the opportunities for active management gains.

### Actual investment mix [1]


# The actual cash held by the Fund is 6.89%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

# KiwiSaver Aggressive Fund

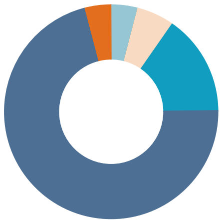
**Portfolio Manager: Stephen Johnston**

The Fund gained 5.1% in August and is up 17.0% in the last year. Share markets positively surprised in August, supported by gradually improving economies and most importantly, vaccine optimism.

Key positive contributors included Apple (+21.7%) which surged to another record high. Incredibly, the Apple share price has now doubled in the last five months. Apple will launch a 5G iPhone later this year and looks to be one company that will emerge from this crisis even stronger. US software company Salesforce (+39.9%) also performed well after releasing strong second quarter results and raising their guidance for the year. Salesforce traded up 26% the day following its results, no small feat for a company with a market capitalisation of over US$200bn. Electronic payments giant Mastercard (+16.1%) also contributed positively amid signs that consumer spending is rebounding as lockdowns ease. Elsewhere, Alibaba (+14.3%) climbed following strong results, and plans to list its financial services arm, Ant Financial, this year.

Detractors included leading credit bureau TransUnion (-3.1%) as investors took profits after strong gains, American Water Works (-3.7%), provider of water-related services in North America, and US telecommunication tower play American Tower (-4.7%), also contributed negatively. Although these companies are essential parts of US infrastructure and not impacted by the pandemic, they are sensitive to rising interest rates which we saw in August. Positives in Australasia included financial platform HUB24 (+21.3%) that beat earnings expectations, and Xero (+12.3%), the cloud-based accounting software company. Our gold miners Evolution (-3.8%) and Northern Star (-11.7%) detracted from performance on profit taking.

The economic outlook remains uncertain but given the policy support, the backdrop is very favourable for stock picking. We continue to take an opportunistic approach in this market volatility, by identifying high quality businesses that will emerge from this downturn even stronger.




# The actual cash held by the Fund is 8.07%. 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 1.70% *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 August 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% | — | — | — | — | 1.0015 | 21.8 M |
| KiwiSaver Conservative Fund | 1.11% | 4.20% | 5.91% | 6.31% | 8.72% | 1.9081 | 190.8 M |
| KiwiSaver Moderate Fund | 1.51% | — | — | — | — | 1.1013 | 19.5 M |
| KiwiSaver Balanced Fund | 2.30% | 6.61% | 8.62% | 8.90% | 10.01% | 2.5988 | 446.0 M |
| KiwiSaver Active Growth Fund^ | 3.50% | 7.89% | 10.71% | 10.80% | 12.44% | 4.2391 | 1,744.8 M |
| KiwiSaver Aggressive Fund | 5.09% | 17.01% | — | — | — | 1.1855 | 164.5 M |

For details of how investment performance is calculated, and returns at each PIR please see www.milfordasset.com/funds-performance/view-performance#tab-performance.
Performance figures are after total Fund charges* have been deducted and at 0% PIR.
Please note past performance is not a guarantee of future returns.
*Total Fund charges do not include the $36 p.a. Administration and Registry fee.
Inception dates for the Funds: KiwiSaver Active Growth Fund: 1 October 2007, KiwiSaver Balanced Fund: 1 April 2010, KiwiSaver Conservative Fund: 1 October 2012, KiwiSaver Aggressive Fund: 1 August 2019, KiwiSaver Cash Fund: 27 March 2020, KiwiSaver Moderate Fund: 27 March 2020.
^This is based on the performance of the AonSaver AMT Milford Aggressive Fund until 31 March 2010 and the Milford KiwiSaver Active Growth Fund from 1 April 2010.

## Key Market Indices

| | Past month | 1 year | 3 years (p.a.) | 5 years (p.a.) | 7 years (p.a.) |
|---|---|---|---|---|---|
| S&P/NZX 50 Gross Index (with imputation credits) | 1.82% | 11.77% | 16.27% | 17.37% | 16.14% |
| S&P/ASX 200 Accumulation Index (AUD) | 2.83% | -5.08% | 6.10% | 7.47% | 6.83% |
| S&P/ASX 200 Accumulation Index (NZD) | 4.53% | -2.73% | 5.68% | 6.97% | 6.05% |
| MSCI World Index (local currency)* | 6.27% | 14.39% | 9.74% | 10.17% | 10.39% |
| MSCI World Index (NZD)* | 5.14% | 8.98% | 11.96% | 8.99% | 11.78% |
| S&P/NZX 90-Day Bank Bill Rate | 0.03% | 0.95% | 1.62% | 1.94% | 2.34% |
| Bloomberg Barclays Global Aggregate Bond (USD-Hedged) | -0.72% | 3.28% | 4.83% | 4.37% | 4.38% |
| S&P/NZX NZ Government Bond Index | 0.81% | 4.45% | 6.33% | 5.16% | 5.71% |

*With net dividends reinvested

**Milford KiwiSaver plan is the proud winner of multiple awards:**

2018 | 2019 | 2020 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 Cash Fund | KiwiSaver Conservative Fund | KiwiSaver Moderate Fund |
|---|---|---|
| Westpac 32 Day CMD 2020 8.74% | NZLGFA 1.5% 2029 1.44% | Spark New Zealand 1.07% |
| ANZ 1.21% 2020 5.06% | Housing NZ 3.36% 2025 1.19% | Contact Energy 0.78% |
| Housing NZ 0% 2020 4.75% | NZLGFA 3.5% 2033 1.14% | Fisher & Paykel Healthcare 0.76% |
| ANZ 1.2% 2020 3.78% | Westpac 2.22% 2024 1.11% | NZLGFA 1.5% 2029 0.72% |
| ANZ 1.2% 2020 3.78% | ASB Bank 1.83% 2024 1.09% | Woolworths 0.70% |
| Contact CD 2020 3.77% | ING Group 1.45% 2024 0.98% | Transurban Group 0.67% |
| NZ Treasury 0% 2020 3.77% | ANZ 1.2% 2020 0.97% | NZLGFA 1.5% 2026 0.65% |
| Christchurch City 0% 2020 3.77% | Transpower 1.735% 2025 0.96% | Apple 0.62% |
| Auckland Airport CD 2020 3.77% | NZLGFA 1.5% 2026 0.93% | Amazon 0.61% |
| ANZ 1.2% 2020 3.02% | ANZ Bank Float 2024 0.92% | Alphabet 0.61% |

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 1.91% | Spark New Zealand 3.84% | Amazon 3.05% |
| Fisher & Paykel Healthcare 1.77% | Fisher & Paykel Healthcare 3.79% | Alphabet 2.87% |
| a2 Milk Company 1.28% | Summerset Group Holdings 2.37% | Microsoft Corp 2.79% |
| Contact Energy 1.25% | a2 Milk Company 2.13% | Apple 2.66% |
| Alphabet 1.23% | Contact Energy 1.95% | Thermo Fisher Scientific 1.82% |
| Apple 1.22% | Newmont Mining 1.86% | Mastercard 1.77% |
| Amazon 1.21% | Alphabet 1.83% | Home Depot 1.77% |
| Microsoft Corp 1.20% | Dr Horton 1.79% | Transunion 1.70% |
| Woolworths 1.10% | Charter Hall Retail 1.71% | Alibaba Group 1.68% |
| Transurban Group 1.03% | Lowe's Companies Inc 1.63% | ANSYS 1.65% |

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 August 2020.**

**Katlyn Parker**
Investment Analyst

# Investment Highlight - Kerry Group

## From a humble Irish dairy farm to a global food supplier

Kerry Group is a major international food corporation headquartered in Ireland. The company is a global leading supplier of flavours and ingredients to food, beverage and pharmaceutical industries, as well as a supplier of own and customer-branded food products to retailers in the UK, and Irish and select international markets.

What is exceptional to note with Kerry Group is its humble beginnings as a private dairy farm in southwest Ireland before becoming a dairy co-operative in 1974 with the aim of manufacturing milk protein for export to the US. Kerry started out as the smallest of Ireland's six major agricultural co-ops in 1974 with sales of €29m. However, the co-op understood that to grow and develop it would need to diversify from solely dairy into more value-added products and to do so the corporate structure would need to be changed. In 1986, Kerry Group became the first public company in Ireland to be formed from a co-operative. The transformation of Kerry Group is something its NZ peer Fonterra has struggled with.

Kerry Group has had tremendous success since listing through both organic growth and strategic acquisitions around the world. Kerry now operates in 150+ countries, employs around 26,000 staff and has 148 manufacturing locations globally. In 2019 Kerry generated revenue of €7.2bn from its two core divisions: Taste & Nutrition & Consumer Foods.

In the Taste & Nutrition division (which accounts for >80% of total revenue), Kerry manufacturers and distributes a portfolio of over 15,000 ingredients. Kerry also works with their key customers to develop solutions for existing products (e.g. improve a recipe) and create new products. This collaboration has built long standing client relationships which provides the company with a competitive advantage in a highly fragmented industry. The Consumer Foods segment accounts for a smaller proportion of overall revenue (sub 20%) but with Kerry having their own branded products as well as customer branded chilled or frozen food products, it gives the company additional insights into the Taste & Nutrition market.

We first invested in Kerry Group's bonds in September 2019. Bond investment analysis is not dissimilar to that of share investments, although its focus is through a different lens. As well as ensuring investments have robust business profiles, bond investors have additional emphasis on cash flow and balance sheets to ensure interest payments can be serviced and funding refinanced in due course. Kerry's leading market position, strong balance sheet, solid cashflow generation, in addition to its geographic and product diversification were all contributory factors that attracted us to invest in the company's debt. Kerry Group's bonds also qualify for purchase by the European Central Bank's asset purchase programmes which provides a further level of support for its bond prices.

Kerry Group is just one example of the many corporate borrowers we invest in globally and Australasia across our fixed income and diversified funds. This breadth of opportunity available outside of New Zealand opens up a broad universe of opportunities to deliver both improved fund diversification and risk return.

## Many Happy Returns for the Milford KiwiSaver Aggressive Fund

**Murray Harris**
Head of KiwiSaver & Distribution

August marked the first birthday for the Milford KiwiSaver Aggressive Fund. We are pleased to report that the Fund has had a very good first year, with a 1-year return after fees and tax of 17.0%. While past performance is no guarantee of future returns, this is a very promising start for the Fund.

This places the Fund as the top performer of the Milford KiwiSaver Plan funds for the year and at number two in the Morningstar Aggressive Fund peer group of 11 similar funds. We are very pleased with the results achieved for our KiwiSaver investors in the Fund, who have supported it so well in its first year, with $164m now invested.

When asked to describe the Fund's first year, Stephen Johnston, Portfolio Manager said, *"It has been a roller coaster year and there has been no shortage of volatility in financial markets. However, I am pleased the companies in the Aggressive Fund have weathered the storm well and generated a very pleasing result for our members. This is just the beginning of our journey".*

The Fund has benefited from investing in companies which have performed well through the COVID-19 pandemic such as technology companies Apple and Microsoft; Visa, Mastercard and Amazon who have been beneficiaries of the surge in online shopping, and US healthcare company Thermo Fisher Scientific, whose technology is used in COVID-19 testing.

As a reminder, the Milford KiwiSaver Aggressive Fund invests primarily in global shares with a moderate allocation to Australasian shares and a small allocation to cash. The Fund allows investors with a longer investment time horizon (at least 15 years) and higher tolerance for risk and short term volatility to choose a KiwiSaver fund that is designed to maximise growth and the opportunity for strong returns over the long term.

For more information about the KiwiSaver Aggressive Fund check it out here.