# Milford KiwiSaver Plan
## Monthly Review September 2022

## Patience is a virtue

August was a volatile month with global share prices moving sharply higher, and then lower as the month progressed. As we wrote last month, we were sceptical of the recent strength in share markets and have maintained a cautious position in our funds, reducing exposure even further during August. For this reason, monthly fund returns are only modestly negative despite significantly weaker share and bond markets.

Whilst the outlook remains challenging, we continue to find good quality companies with reasonable outlooks and attractive valuations. Owning these companies has helped us outperform broader share markets, even if these companies' shares will continue to be buffeted by broader market volatility.

Last month, strong performance of safe (even slightly boring) companies boosted returns. Companies such as Contact Energy (+3.0%) and Spark (+6.3%) in NZ helped anchor portfolios against broader volatility. Elsewhere, strong monthly returns of natural gas companies such as Cheniere (+7.3%) and Santos (+9.7%) helped offset weakness in some of the growth orientated parts of the market.

Corporate bond prices were offering some attractive returns in June. Since then, strong performance has diminished the near-term outlook. We are also wary that low government bond yields have yet to reflect the reality of persistently higher inflation and held less exposure to interest rates as a result. With corporate bond issuance picking up over the next few weeks we are in a good position to add to our positions at attractive levels.

The outlook is highly uncertain. In the short term, headline inflation looks to be moderating and economic growth is holding up reasonably well. But slow growth in China and a building cost-of-energy crisis in Europe is adding to the broader global headwinds facing both consumers and businesses. Rising wages will also likely threaten corporate profitability over the next year. September usually heralds some market volatility; our funds are in a strong position to benefit from this due to their large cash holdings. We continue to look for opportunities to put this cash to work in company shares or bonds at more attractive valuations over the next few months.

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# KiwiSaver Conservative Fund

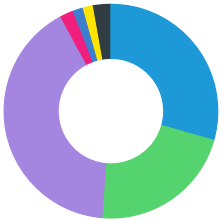
**Portfolio Manager: Mark Riggall**

The Fund returned -0.5% in the month with a one-year return of -5.5%. Weakness in global bond markets was once again the key performance drag on the Fund, although the Fund has held on to a large portion of the gains since June. Better global economic growth recently means investors are expecting central banks to have to raise interest rates further to combat inflation.

The Fund has a much-reduced exposure to bonds, helping cushion against these falls. The good news is that bonds have now largely made these adjustments and forward-looking returns look healthier. Share markets were volatile in August too, with global shares ending the month down 3.5%. The Fund has also held a much-reduced exposure to shares (around 8%) compared to normal (18%) and the types of shares have been more defensive. In August, strong performance from key holdings Contact Energy (+3.0%) and Spark (+6.3%) also helped Fund returns.

The outlook remains uncertain, economic growth has been resilient but a cost of energy crisis in Europe and an impaired Chinese economy threatens the momentum. With a lot of cash in the Fund (now earning over 3% interest thanks to higher bank rates), this provides plenty of dry powder to deploy if September heralds further market volatility (as it can often do).

**Actual investment mix[1]**



- Effective Cash# 29.41%
- New Zealand Fixed Interest 21.78%
- International Fixed Interest 40.87%
- New Zealand Equities 2.05%
- Australian Equities 1.54%
- International Equities 1.54%
- Listed Property 2.81%
- Other* 0%

# The actual cash held by the Fund is 17.69%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

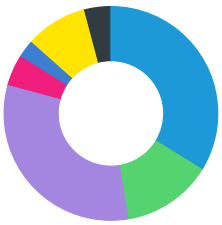
# KiwiSaver Moderate Fund

**Portfolio Manager: Mark Riggall**

The Fund returned -0.1% in the month with a one-year return of -4.7%. A volatile month saw global shares reverse a mid-month rally to close the month down 3.5%. Bond markets were also weak as investors expect central banks to have to raise rates more aggressively to combat inflation. We had been sceptical of the rally in shares and have held a much-reduced position (24%) in shares compared to usual (40%). Our stock selection has also been more defensive which has helped us weather market volatility.

In August, large fund holdings in Contact and Spark paid off with performance of 3.0% and 6.3% respectively from these stocks. Bonds were weaker in August as better global economic growth recently means investors are expecting central banks to have to raise interest rates further to combat inflation. The Fund also has a much-reduced exposure to bonds, helping cushion against these falls. The good news is that bonds have now largely made these adjustments and forward-looking returns look healthier.

Looking ahead, there are a number of key concerns, but primarily the European consumer and the impact of higher global wage growth on company margins and profits. With a lot of cash in the Fund (now earning over 3% interest thanks to higher bank rates), this provides plenty of dry powder to deploy if September heralds further market volatility (as it can often do).



- Effective Cash# 33.78%
- New Zealand Fixed Interest 13.69%
- International Fixed Interest 31.73%
- New Zealand Equities^ 4.68%
- Australian Equities 2.68%
- International Equities 9.29%
- Listed Property 4.15%
- Other* 0%

# The actual cash held by the Fund is 18.98%. 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 0.07% *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 Balanced Fund

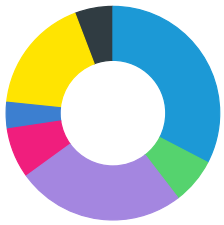
**Portfolio Manager: Mark Riggall**

The Fund returned -0.1% in the month with a one-year return of -4.0%. A volatile month saw global shares reverse a mid-month rally to close the month down 3.5%. Bond markets were also weak as investors expect central banks to have to raise rates more aggressively to combat inflation. We had been sceptical of the rally in shares and have held a much-reduced position (35-40%) in shares compared to usual (60%). Our stock selection has also been more defensive which has helped us weather market volatility.

In August, large fund holdings in Contact and Spark paid off with performance of 3.0% and 6.3% respectively from these stocks. We had increased exposure to corporate bonds in June at attractive levels. These have performed well over the last 2 months so we have reduced exposure again in anticipation of better opportunities to add exposure as corporates come back to the market after their summer break. In currencies, the Fund has held increased exposure to US dollars this year, helping boost performance as the NZ dollar has depreciated.

Looking ahead, there are a number of key concerns, but primarily the European consumer and the impact of higher global wage growth on company margins and profits. This keeps us cautious, although markets are now starting to reflect these risks. With that in mind, we will be looking to use any market weakness to add back to exposure in bonds and shares.

**Actual investment mix[1]**



- Effective Cash[#] 32.64%
- Australian Equities 4.01%
- New Zealand Fixed Interest 6.94%
- International Equities 17.57%
- International Fixed Interest 25.43%
- Listed Property 5.79%
- New Zealand Equities[‡] 7.62%
- Other[*] 0%

# The actual cash held by the Fund is 13.57%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

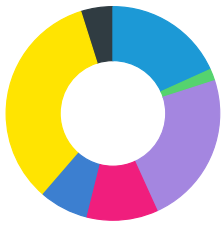
# KiwiSaver Active Growth Fund

**Portfolio Manager: Jonathan Windust**

The Fund returned -0.4% in August with negative returns from both bond and share markets. New Zealand and Australian share market indices rose 1.0% and 1.2% in contrast to the global share market index which fell 3.5%. Global share markets and bond markets came under pressure as longer-term interest rates rose. Interest rates rose in response to continued high inflation and talk from central banks around the globe that they would continue to act aggressively to control inflation even if growth is slowing. New Zealand and Australian shares performed well following generally robust earnings reports from major companies which reported during the month. The Fund performed well compared to the markets it invests in given more cautious positioning and a lower weight in shares.

Key company performance in the month included Australian materials company IGO (+21.7%), US energy company EOG Resources (+9.1%), New Zealand telco Spark (+6.3%) and UK bank Barclays (+6.1%). IGO is benefitting from strong demand and prices for Lithium and Nickel which are used in batteries for electric vehicles. Spark benefitted from a solid result and the attractive price it received for its mobile phone towers. The proceeds from the tower sale will allow Spark to return funds to shareholders and invest for future growth. Barclays was aided by a good result and rising interest rates which allow it to generate higher returns in the future.

The short-term outlook for shares remains uncertain with headwinds of higher inflation and higher interest rates which are likely to slow medium-term company growth prospects. Last month's share market valuations, in aggregate, are around long run averages. However they vary significantly by style, with growth company valuations above average as investors remain optimistic this sector. This variation in valuation provides the opportunity for active management gains over time. Given the uncertain environment the Fund remains more defensively positioned than typical with a lower weight towards shares. The Fund has increased its holdings in company bonds (fixed income) which we believe reflect the high levels of market uncertainty. The Fund remains active to isolate those companies which we believe have strong risk-adjusted return prospects.



- Effective Cash[#] 18.25%
- Australian Equities 7.44%
- New Zealand Fixed Interest 1.79%
- International Equities 33.80%
- International Fixed Interest 23.18%
- Listed Property 4.87%
- New Zealand Equities[‡] 10.67%
- Other[*] 0%

# The actual cash held by the Fund is 9.16%. 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 0.13% [‡]Includes unlisted equity holdings of 0.53%
[*]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 Aggressive Fund

**Portfolio Manager: Stephen Johnston**

The Fund fell 1.5% in August. After a promising start to the month, we saw a global sell-off in share markets, following a speech from Jerome Powell, the Chair of the US Federal Reserve, where he made it clear he is committed to getting inflation under control, despite signs that economic growth is slowing.

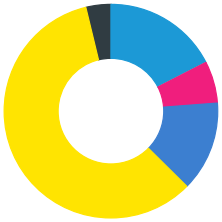
In our international portfolio, commodity related names outperformed despite weakness seen in the price of oil and other commodities. The top contributor in August was energy company Shell (+6.1%). One of the attractions of Shell is their commitment to carbon reduction. Encouragingly, Shell has made large investments in renewable energy including wind, solar and hydrogen as well as vehicle charging infrastructure. US healthcare insurer Elevance Health (+1.7%) was another standout, proving its defensive qualities in a tough month for shares. Other highlights included financial giant Charles Schwab (+3.1%) a key beneficiary of higher interest rates and Cheniere Energy (+7.3%) one of the largest LNG producers in the world benefitting from high natural gas prices.

Underperformers in August were semiconductor company Analog Devices (-11.4%) on concerns of slower demand ahead and pharmaceutical company Bristol Myers (-8.6%) on a mixed data readout from a next generation anticoagulant drug trial. We continue to remain positive on both companies over the medium term.

Closer to home, Australasian markets outperformed in August. Strong performers included Australian miner IGO (+21.7%), a key supplier of both lithium and nickel which are essential as the world transitions to electric vehicles and renewable energy. BHP Group (+5.0%) and Santos (+9.7%) also had a solid month. In the New Zealand market, Infratil (+8.0%) outperformed and after a challenging period, a2 Milk (+24.8%) soared, on strong full year results as infant formula sales recovered.

Looking ahead, we remain cautious for now and are holding higher levels of cash until we see a sustained decline in inflation.

**Actual investment mix[1]**



- Effective Cash# 17.46%
- International Equities 58.80%
- New Zealand Equities 6.33%
- Listed Property 3.78%
- Australian Equities 13.63%
- Other* 0%

# The actual cash held by the Fund is 14.70%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

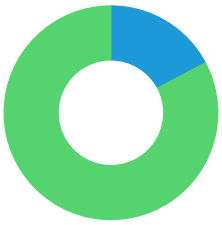
# KiwiSaver Cash Fund

**Portfolio Manager: Travis Murdoch & Katlyn Parker**

The Reserve Bank of New Zealand (RBNZ) Monetary Policy Review in August saw the Official Cash Rate increased by 0.5 percentage points to 3.0 percent. Short-dated NZ Dollar bank bills, a reflection of interbank funding levels, continued their move higher throughout the month and the market is attaching a strong probability of the RBNZ to raise the OCR by another 0.5 percentage points at the upcoming October meeting.

Looking forward, this should continue to benefit the Fund by increasing the interest rates into which it can progressively reinvest maturing holdings. Our base case remains for higher interest rates from here albeit it remains to be seen if current market expectations will be fully realised if inflation moderates and/or growth slows.

The portfolio management of the Fund remains focused 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.



- Effective Cash# 17.25%
- Other* 0%
- New Zealand Fixed Interest 82.75%

# The actual cash held by the Fund is 17.25%. 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.

# 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 | -0.46% | -5.49% | 1.25% | 3.43% | 6.86% | 1.8983 | 200.4 M |
| KiwiSaver Moderate Fund | -0.08% | -4.67% | — | — | 6.30% | 1.1572 | 102.8 M |
| KiwiSaver Balanced Fund | -0.05% | -3.96% | 6.29% | 7.62% | 9.38% | 2.9176 | 957.6 M |
| KiwiSaver Active Growth Fund^ | -0.39% | -5.92% | 7.81% | 9.53% | 11.80% | 4.8993 | 3,181.6 M |
| KiwiSaver Aggressive Fund | -1.54% | -10.11% | 9.48% | — | 9.73% | 1.3263 | 801.2 M |
| KiwiSaver Cash Fund | 0.25% | 1.33% | — | — | 0.78% | 1.0190 | 84.0 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.
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) | 0.96% | -11.62% | 3.25% | 9.13% | 11.87% |
| S&P/ASX 200 Accumulation Index (AUD) | 1.18% | -3.43% | 5.51% | 8.13% | 8.53% |
| S&P/ASX 200 Accumulation Index (NZD) | 1.68% | 3.99% | 7.14% | 8.34% | 8.51% |
| MSCI World Index (local currency)* | -3.46% | -11.27% | 9.71% | 8.82% | 9.38% |
| MSCI World Index (NZD)* | -2% | -2.5% | 9.8% | 11.26% | 9.34% |
| S&P/NZX 90-Day Bank Bill Rate | 0.22% | 1.19% | 0.82% | 1.27% | 1.6% |
| Bloomberg Barclays Global Agg. Bond (USD-Hedged) | -2.61% | -9.99% | -2.16% | 0.88% | 1.67% |
| S&P/NZX NZ Government Bond Index | -3.09% | -10.42% | -3.97% | 0.38% | 1.24% |

*With net dividends reinvested

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

consumer. PEOPLE'S CHOICE Milford KiwiSaver Plan

CANSTAR PROVIDER OF THE YEAR KIWISAVER 2020 - 2021

CANSTAR OUTSTANDING VALUE KIWISAVER SCHEME 2020 - 2021

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

| KiwiSaver Conservative Fund | KiwiSaver Moderate Fund | KiwiSaver Balanced Fund |
|---|---|---|
| NZLGFA 1.5% 2026 1.28% | Contact Energy 1.45% | Contact Energy 2.28% |
| NZLGFA 2.25% 2024 1.19% | NZGBI 2% 2025 1.19% | NZGBI 2% 2025 1.32% |
| NZGBI 2% 2025 1.16% | HCA Holdings 0.76% | HCA Holdings 1.17% |
| NZLGFA 4.5% 2027 0.90% | NZLGFA 1.5% 2026 0.71% | Elevance Health 1.01% |
| Genesis 5.66% 2027 0.84% | Elevance Health 0.69% | Boston Scientific 0.98% |
| NZLGFA 2.25% 2031 0.83% | NZLGFA 2.25% 2024 0.66% | Santos 0.96% |
| NZLGFA 2.25% 2028 0.81% | Santos 0.63% | Charter Hall Retail 0.86% |
| Monash University 4.05% 2029 0.80% | Boston Scientific 0.62% | Natwest 0.84% |
| Contact Energy 0.72% | Goodman 0.60% | Telstra 0.82% |
| IAG 5.32% 2038 0.68% | Genesis 5.66% 2027 0.59% | Spark 0.81% |

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 | KiwiSaver Cash Fund |
|---|---|---|
| Contact Energy 3.80% | Elevance Health 2.77% | Westpac 45 Day WND 17.07% |
| Shell 2.65% | Boston Scientific 2.63% | Auckland Airport CD 2022 5.25% |
| JPMorgan 2.53% | Shell 2.44% | ASB 1.99% 2022 4.24% |
| CRH 2.33% | Bristol-Myers Squibb 2.14% | Fonterra CD 2022 4.19% |
| Virgin Money 2.09% | Aon 2.02% | SBS CD 2022 3.85% |
| HCA Holdings 1.84% | Alphabet 1.90% | Heartland CD 2022 3.51% |
| NatWest 5.125% Perpetual 1.66% | Intuit 1.81% | Auckland Airport CD 2022 3.51% |
| Boston Scientific 1.62% | Charles Schwab 1.80% | Fonterra CD 2022 3.49% |
| Natwest 1.62% | Microsoft 1.78% | ASB 3.485% 2022 2.82% |
| Charter Hall Retail 1.50% | Danaher 1.75% | Port of Tauranga CD 2022 2.81% |

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 $17.8 million invested in the Milford KiwiSaver Plan as at the end of August 2022.

**Michael Luke**
Investment Analyst

# Investment Highlight: Infratil


## An active infrastructure investor

Infratil is an infrastructure investor with a significant portfolio of investments in digital infrastructure, renewables, healthcare, and transport. These are defensive sectors supported by long-term growth trends such as growing data usage, global decarbonisation and an increase in the ageing population. Current investments include renewable developments, data centres, diagnostic imaging, and more locally Vodafone, Wellington Airport and Manawa Energy (formerly Trustpower).

Infratil and their manager Morrison & Co have a strong track record of identifying these trends early and creating value through active management. This is evident with Infratil delivering an impressive shareholder return of over 18% per year since listing on the NZX in 1994.

Infratil has been a core holding across our NZ equity funds since 2019 where we participated in a capital raise by Infratil to fund the acquisition of Vodafone and we have subsequently increased our holdings. Infratil has been a strong performer since then with their share price increasing from $4.35 to above $9.00 today. This has been driven by their investments in renewable energy and Canberra Data Centres in particular.

## Renewable Energy

Infratil was an early investor in renewables with their first investment being a minority stake in Trustpower back in 1994. Infratil went on to acquire control of Trustpower which continued to develop renewable energy in New Zealand and then in Australia.

In 2016 Trustpower spun out their wind generation and development projects into a new listed company called Tilt Renewables. Tilt was valued at about $600 million after being demerged and it has continued to develop renewables in both New Zealand and Australia. Growing demand for renewables and the quality of Tilt's development pipeline saw the company acquired in 2021 for $3.1bn resulting in significant gains for Tilt shareholders including Infratil with a 65.5% stake.

Infratil went on to build renewable development platforms in North America in 2016 (Longroad) and more recently in Europe and Asia. Infratil has invested a net US$112m in Longroad since 2016 which recently sold a minority stake valuing Infratil's investment at US$800m.

Both Tilt & Longroad are illustrative of Infratil's expertise in renewables. Today Infratil has become a global leader in renewables with a 20GW development pipeline across 4 continents and 26 countries. To put that in context, New Zealand has c.10GW of installed generation capacity.

## Canberra Data Centres

In 2016 Infratil acquired a 48% shareholding in Canberra Data Centres for A$392m which builds highly secure datacentres for customers including the Australian government. At the time the business had ~30MW of data centre capacity which is expected to grow to 268MW in 2023 with Infratil's shareholding now valued at A$2.9bn. This has been driven by global themes of growing cloud adoption and data sovereignty, where countries including Australia and New Zealand have elected to keep important data onshore.

Vodafone has also been a successful investment for Infratil to date with Vodafone recently announcing the sale of their mobile towers for $1.7 billion. The transaction returns 80% of Infratil's initial investment in Vodafone, while the mobile towers only contributed 10% of Vodafone's earnings.

## Outlook from here

In our view Infratil has an attractive portfolio of investments that had been underappreciated by the market prior to recent transactions. Long term success will be dependent on Infratil's managers ability to continue to identify emerging trends for new investments and actively manage their portfolio including divesting assets where the outlook changes.

# Managing your KiwiSaver sustainably and responsibly

**Murray Harris**
Head of KiwiSaver & Distribution

We take the management of your hard-earned money going into your KiwiSaver funds very seriously. We want to ensure that we can generate consistently good investment returns on your funds, to help you reach your retirement or savings goal, and we also want to invest your money in companies committed to improving their sustainability practices.

**So what does this mean?**
There are many words used by fund managers to describe how they manage money, so it is not doing harm to the environment or society. Words such as responsible, ethical and sustainable. There are two main ways managers can implement their approach. One is to simply exclude the companies they believe are not responsible or sustainable and leave them to continue on their merry way. The other is to engage with companies and influence them to bring about positive change.

**At Milford, we want to be part of the solution.**
We are committed to creating a more sustainable future by actively engaging with the companies we invest your KiwiSaver (and all of our other funds) in to improve the sustainability of their practices. As providers of capital to businesses we believe we can make the biggest impact by driving companies to do better and challenging them on their environmental, social and governance (ESG) performance.

We analyse the ESG credentials of every company we invest your money in. As shareholders in these businesses, our detailed analysis allows us to have educated conversations on what the transition to a more sustainable future can and should look like, request increased transparency and help them to improve and do better. If a company won't engage with us or is ignoring sustainability risks, we won't invest your money in it.

**How we've engaged with companies**
Each year we release our Engagement Activity and Outcomes Report. This report summarises the three types of engagements we have with companies, being proactive engagements, reactive engagements and active proxy voting. Each of these activities keep boards and management accountable for good outcomes for their business and their shareholders.

The 2022 report includes examples of how and why we have engaged with companies like Spark, Ryman Healthcare and Fletcher Building, to name a few. You can also learn more about our Sustainable Investing approach on our website including our Sustainable Investment Statement.

Of course, there are companies we simply will not invest in. You can see a full list of these companies on our Exclusions List.

We are also signatories to the United Nations Principles for Responsible Investing and a member of the Responsible Investment Association of Australasia. In 2020, we were awarded an A rating* by UNPRI and recognised for strong engagement with policymakers and regulators.

Full details are available in Milford's UNPRI Transparency Report.

PRI Principles for Responsible Investment

riaa Responsible Investment Association Australasia

As stewards of your hard-earned savings, we want to ensure we are playing our part to influence positive and sustainable outcomes from the companies we actively engage with and invest in. That way we all get to benefit.

*In 2020, Milford was awarded an A rating on four UNPRI modules including our overall Strategy and Governance and ESG Incorporation.