



## Milford KiwiSaver Plan Monthly Review August 2019

### Market and Economic Review

July saw Milford's funds continue the recent string of strong monthly performances with positive returns from all funds.

Growth companies lead the share market rally in July. Global companies reported quarterly profits, there was some concern the ongoing trade war could be felt in weaker results. In aggregate, global companies exceeded investor expectations, with notable performance from the technology sector. Google closed the month up 12.6% and semi-conductor company ASML was up 10.4%, both of which are Milford holdings.

In Australia growth companies also had a strong month, with smaller Australian companies outperforming. New Zealand shares in general continue to benefit from investor inflows and the index was up 3.4%, led by index heavyweight a2 Milk which was up 22.8%. Milford continues to hold a favourable long-term view of the company.

Looking ahead, August is reporting season for Australian and NZ companies and with the recent strong performance in these regions there is likely to be some stock volatility which we will look to take advantage of.

Market interest rates around the world continue to fall and central banks in Australia and the US cut interest rates by 0.25% in July. Further cuts are expected, and low levels of interest rates continue to drive investors towards potentially higher returning investments such as company bonds and shares.

Although global economic growth has slowed this year, data released in July showed economic weakness to be largely contained within the global manufacturing sector – a symptom of the ongoing US-China trade tensions. The global consumer remains in good shape, supported by full employment, reasonable wage growth and falling interest rates.

Weaker growth and low inflation enable central banks to lower interest rates, whilst growth appears to be robust enough to enable companies to grow profits. If this situation persists we see the potential for further gains in shares and bonds. However, the path ahead is uncertain – the trade war could deteriorate, or weaker business investment could start to curb jobs growth. After the strong year to date returns in shares, we have selectively reduced some exposure across the funds.



## KiwiSaver Conservative Fund

**Portfolio Manager: Paul Morris**

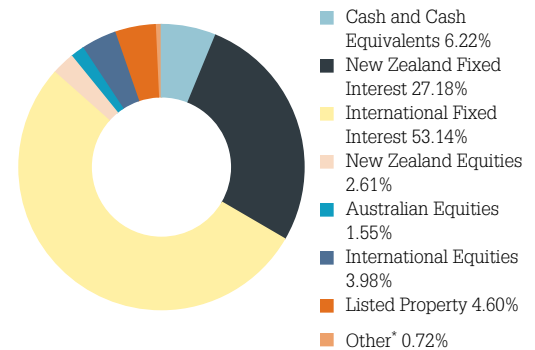
The Fund returned 1.0% in July, contributing to a 1-year return of 7.5%. Its bonds and shares continue to benefit from falling market interest rates on expectations for looser central bank monetary policy.

A lower projected path for interest rates is driving investors to hunt for yield with an increasing proportion of global bonds now at negative or negligible interest rates. This backdrop was notably supportive for the Fund's global and Australasian corporate bonds (its dominant exposure) which outperformed government bonds. The Fund's share exposure also benefited, especially Australasian shares.

Looking forward, the economic backdrop remains uncertain as economic growth is slowing. Event risks are still elevated, most notably Brexit and tariff/trade wars. Mindful of the Fund's conservative risk profile, it will retain slightly cautious positioning, irrespective of a likely supportive monetary policy backdrop. This means holding less shares and more corporate bonds relative to the Fund's long run average and a lower exposure to higher risk corporate bonds.

The outlook for returns remains positive but we would reiterate that after another month of strong gains across bonds and shares it may start to moderate. Through active management and security selection we have, and will continue to aim to deliver reasonable but lower risk returns.

### Actual investment mix <sup>1</sup>



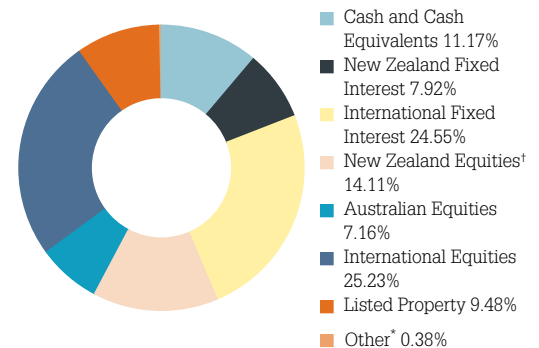
## KiwiSaver Balanced Fund

**Portfolio Manager: Mark Riggall**

The Fund returned 1.5% in July, taking 1-year returns to 8.5%. Returns over the past few months have been generated by both share and bond investments in the Fund. Lower interest rates around the world, coupled with a slow but not recessionary economic growth picture has pushed global investors to seek higher returns by investing into shares and company bonds. This process continued in July and better earnings from tech companies saw them lead the returns for global shares this month.

Recently the Fund has been increasing its exposure to NZ shares and small company Australian shares and this move was rewarded in July. In NZ, a2 Milk rose 22.8%, driving the index up 3.4%. Australian small companies (which are more growth orientated) also outperformed and the Dynamic Fund was up 4.9% in July. The bond portfolio also continues to deliver strong returns, exemplified by the Trans-Tasman Bond Fund which returned 1.1% in July and 7.3% over the past year.

Our outlook for shares and corporate bonds remains positive but given the stronger run in all assets since the beginning of the year, the Fund has reduced some exposure to shares. The Fund starts the month with a slightly elevated cash position, allowing for investments into shares or bonds at more attractive prices over the course of the next few weeks.



## KiwiSaver Active Growth Fund

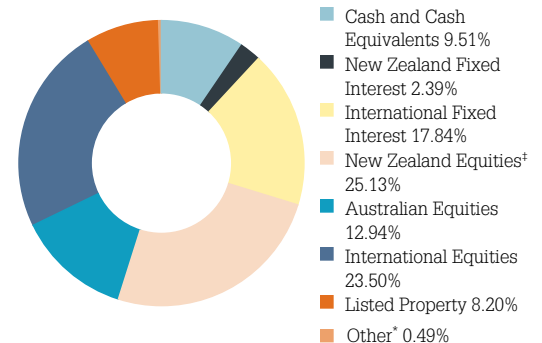
**Portfolio Manager: Jonathan Windust**

The Fund rose 1.6% in July, benefiting from strong share markets in Australia and New Zealand. Share markets remain supported by investors seeking alternatives to low interest rates. The Fund's investment in the Dynamic Fund performed strongly rising 4.9% for the month.

Key company performers during the month included a2 Milk (+22.8%) and Ebos (+7.7%) in New Zealand, Australian property company Aventus (+7.9%) and Google's parent company Alphabet (+12.6%). a2 shares rebounded as the market speculated they will deliver a strong earnings result in August whilst Google rose following a strong quarterly earnings report. During the month the Fund took advantage of strong share market performances to reduce exposure to New Zealand and Australian shares - in particular, we trimmed holdings in a2 Milk and Contact Energy.

Looking forward we believe shares will be supported by very low interest rates, reasonable dividend yields and positive economic growth. Key headwinds for shares are relatively high valuations, slowing economic growth and political uncertainty.

Given this backdrop and the rise in share market valuations this year the Fund is cautious with a lower than average weight toward shares. Looking forward we continue to work hard to isolate those companies which we believe have strong prospects and will deliver strong returns.



<sup>†</sup>Includes unlisted equity holdings of 0.26% <sup>‡</sup>Includes unlisted equity holdings of 1.89% \*Other includes currency derivatives used to manage foreign exchange risk.  
<sup>1</sup>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 July 2019

## Fund Performance

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	Since Fund inception (p.a.)	Unit price \$	Fund size \$
KiwiSaver Conservative Fund	1.02%	7.54%	6.27%	7.63%	9.36%	1.8151	102.5 M
KiwiSaver Balanced Fund	1.48%	8.52%	9.09%	10.25%	10.36%	2.4197	328.7 M
KiwiSaver Active Growth Fund	1.57%	8.55%	10.67%	11.90%	12.84%	3.9060	1,430.2 M

For details of how investment performance is calculated, and returns at each PIR please see [www.milfordasset.com/funds-performance/view-performance#tab-performance](http://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.

^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)	3.41%	22.92%	15.21%	17.43%	18.79%
S&P/ASX 200 Accumulation Index (AUD)	2.94%	13.26%	11.68%	8.55%	11.74%
S&P/ASX 200 Accumulation Index (NZD)	2.91%	8.39%	11.34%	7.52%	8.34%
MSCI World Index (local currency)*	1.18%	4.68%	10.96%	8.63%	11.84%
MSCI World Index (NZD)*	2.27%	6.89%	13.73%	12.58%	13.80%
S&P/NZX 90-Day Bank Bill Rate	0.16%	1.95%	2.02%	2.52%	2.59%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	0.79%	8.61%	3.02%	3.94%	3.63%
S&P/NZX NZ Government Bond Index	0.72%	8.53%	4.11%	5.78%	4.51%

\*With net dividends reinvested

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

KiwiSaver Conservative Fund	KiwiSaver Balanced Fund	KiwiSaver Active Growth Fund
Westpac 2.22% 2024 1.70%	Contact Energy 2.01%	Contact Energy 3.92%
NZ Govt. Inflation Indexed 2% 2025 1.58%	a2 Milk Company 1.99%	a2 Milk Company 3.06%
Vector 3.45% 2025 1.52%	Spark New Zealand 1.51%	iShares MSCI EAFE Min Vol ETF 3.03%
ANZ Bank 3.03% 2024 1.43%	Meridian Energy 1.06%	Spark New Zealand 2.75%
NAB Float 2024 1.40%	Financial Select SPDR 0.95%	Alphabet 1.49%
JPMorgan 5% 2024 1.35%	Vontobel Sust. EM Leaders 0.85%	Westpac 5% 2027 1.42%
Transpower 2.73% 2024 1.33%	Wellington Strategic Euro 0.84%	CYBG 8% 2049 1.37%
NAB Float 2029 1.29%	Fisher & Paykel Healthcare 0.84%	Delegat Group 1.34%
QBE 6.75% 2044 1.28%	Wellington Global Health Care 0.83%	Visa 1.28%
BMO 4.8% 2024 1.14%	Alphabet 0.75%	Fisher & Paykel Healthcare 1.23%

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 \$10.1 million invested in the Milford KiwiSaver Plan as at the end of July 2019.**

# Milford KiwiSaver Plan Monthly Review

## August 2019

### Introducing our new fund – the Milford KiwiSaver Aggressive Fund



**Murray Harris**  
Head of KiwiSaver & Distribution

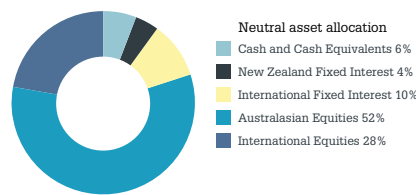
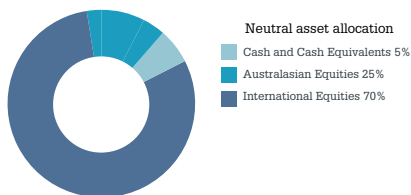
We are delighted to announce the latest fund in our KiwiSaver Plan, the Milford KiwiSaver Aggressive Fund. The Aggressive Fund invests primarily in global shares with a moderate allocation to Australasian shares and a small allocation to cash.

The Fund is an important addition to our KiwiSaver Plan, as it allows investors with a long time frame and higher tolerance for short term volatility to choose a fund that is designed to maximise growth over time.

The recommended investment timeframe for the Aggressive Fund is the highest of our KiwiSaver funds at 15 or more years. The longer timeframe means the Fund is likely to remain mostly invested in shares in times of market decline, which may result in greater volatility in the short term but should maximise the opportunity for strong returns over the long term.

For more information about the Aggressive Fund you can read the [Fund Introduction](#).

### KiwiSaver Aggressive Fund vs. KiwiSaver Active Growth Fund



The Aggressive Fund has a higher allocation to growth assets than the Active Growth Fund.

The fund will also remain mostly invested whereas the Active Growth fund has the ability to have a more defensive investment mix, particularly during a market downturn.

### Create your own mix of KiwiSaver Funds

The Milford KiwiSaver Plan offers five options for investors – our four funds; Conservative, Balanced, Active Growth and Aggressive, or you can 'create your own mix of Funds' by splitting your savings across multiple funds.

If you would like to see your current fund allocation or switch funds, you can login to your [Client Portal](#).

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