



## Milford KiwiSaver Plan Monthly Review

### October 2019

## Market and Economic Review

For much of September geopolitical uncertainty was front of mind for investors and markets. Usually this results in significant volatility, however last month markets remained surprisingly resilient in the face of geopolitical issues and the accompanying barrage of headlines. Most of Milford's funds ended the month with a moderately positive return.

In September investors were occupied with a number of significant, market moving events:

- Attacks on Saudi Arabian oil production facilities, which temporarily sent oil prices almost 15% higher
- Hopes for US-China trade progress rose and fell through the month numerous times on running commentary from both nations
- Pro-democracy protesters in Hong Kong continued to agitate for change, increasing risks for the local economy
- In the UK, Boris Johnson attempted to circumvent parliament to deliver Brexit, only for the High Court to rule his prorogue illegal, ensuring the pathway ahead for the UK remained unclear
- In the US, the Democrat Party began moves to impeach President Trump over allegations he coerced the President of the Ukraine to investigate a potential rival for the 2020 election.

Despite this significant background noise, by month end global share markets (MSCI World Net Total Return Index) were up by 2.3%, New Zealand's NZX 50 Gross Index was up 1.6% and the Australian ASX 200 Index up by 1.8%.

The global economy continues to slow, driven by a business sector faced with the same uncertainties as investors. Interest rates also remain low and central banks are doing their utmost to support local economies – the US had a 0.25% rate cut and the European Central Bank delivered a sweeping package of monetary easing during the month. However, until the fog of uncertainty is lifted the broad outlook for share markets is likely to be muted. Nonetheless, an outlook of slow economic growth, coupled with low interest rates still provides a reasonable investment backdrop.

With an uncertain macro environment, our attention remains focussed on stock selection within the funds. October heralds quarterly earnings releases from US companies, which will be instructive in detailing how the trade war has impacted company profits. More importantly, the outlook for growth in profits will be key in driving investor appetite for shares going forward.

## KiwiSaver Conservative Fund

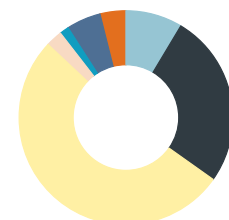
**Portfolio Manager: Paul Morris**

After recent strength, September saw the moderation of returns we had been anticipating and the Fund returned just 0.2%. It is however up 7.7% over the past year. This moderation was in large part due to a rise in market interest rates as the inexorable rise in global bond prices took a breather. That was a headwind for the Fund's fixed interest allocation. However through active management of this exposure, both global and Australasian bonds delivered a largely flat return in the month, including some notable outperformance from the European bank bond holdings.

The performance of the Fund's share allocation was mixed. Its Australasian shares enjoyed a strong month, including a notable performance from Collins Foods (+16.0%) following its inclusion in the ASX 200 Index. In contrast, the Fund's global shares suffered a loss and underperformed the broader market, albeit after a period of strong outperformance.

Looking forward, we remain confident supportive monetary policy combined with active management should deliver a moderate return. Nevertheless, given the Fund's conservative risk profile and the ongoing uncertain economic backdrop we believe it remains prudent to retain the Fund's slightly cautious positioning. This means less shares and more corporate bonds, relative to the long run neutral, with a lower exposure to lower rated/high yield corporate bonds.

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



Cash and Cash Equivalents 8.59%	Australian Equities 1.39%
New Zealand Fixed Interest 26.23%	International Equities 5.20%
International Fixed Interest 52.18%	Listed Property 3.91%
New Zealand Equities 2.50%	Other* 0%

## KiwiSaver Balanced Fund

**Portfolio Manager: Mark Riggall**

The Fund returned 0.7% in September, bringing the 1-year return to 8.6%. It was a month to ignore the headlines as share markets put in a flat to positive return despite the barrage of news flow on trade, Trump impeachment, Brexit and oil price spikes.

Market interest rates were higher during the month as global government bonds sold off after running too far in August. Despite this, the bond holdings delivered a largely flat return for the month as we managed our exposures around this move. The mild increase in market interest rates was not enough to prevent many share markets from making modest gains. These were largely uniform across the regions.

Looking ahead, the Fund remains fully invested as the backdrop of low growth coupled with low interest rates remains reasonably favourable for investing. Returns are less likely to come from broad gains in asset prices going forward. Instead, selective positioning in stocks and sectors will likely yield better results, something the Fund is set up to deliver with investments into Milford's range of funds. Year to date returns for bonds and shares have been strong. Going forward this pace of returns is likely to moderate, but through active management and security selection we should be able to deliver a reasonable return on investment.



Cash and Cash Equivalents 12.73%	Australian Equities 8.18%
New Zealand Fixed Interest 6.91%	International Equities 25.24%
International Fixed Interest 25.30%	Listed Property 8.93%
New Zealand Equities 12.71%	Other* 0%

<sup>†</sup>Includes unlisted equity holdings of 0.29% \*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.

## KiwiSaver Active Growth Fund

**Portfolio Manager: Jonathan Windust**

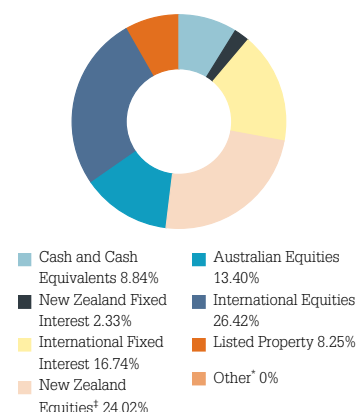
The Fund rose 0.9% in September driven by good returns from share market indices; New Zealand (+1.6%), Australia (+1.8%) and global (+2.3%). Within the share markets there were mixed company performances with many of this year's strong performers reversing some of their gains.

Key company performers during the month included retirement villages Summerset (+9.6%) and Arvida (+11.7%) which benefited from optimism that rate cuts will help support housing markets. Summerset announced the acquisition of land for its first village in Australia which it believes provides an attractive growth opportunity.

During the month the Fund added to a2 milk. The share price fell after its recent result which disappointed analysts as the company sacrifices margin to pursue what it believes is a large revenue opportunity. Whilst not without risk, we believe a2 is attractively valued relative to its growth prospects.

The outlook for shares remains supported by low rates, reasonable dividends and positive (albeit slowing economic growth). Key headwinds are relatively high valuations, slowing company earnings growth and political uncertainty. The strategy of the Fund is to remain active to take advantage of market volatility to purchase companies with strong return prospects.

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



## KiwiSaver Aggressive Fund

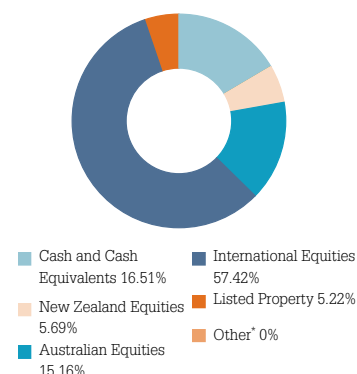
**Portfolio Manager: Stephen Johnston**

The Fund fell 0.2% in September, as the political drama between the US and China continues to drive volatility in share markets. Our portfolio was hurt by a sharp rotation out of high-quality growth companies into more economically sensitive cyclical sectors, with Energy & Banking shares outperforming. We are mindful this rotation could be short lived, unless economic growth expectations move significantly higher.

Top performers for our global holdings included our favourite Indian Bank HDFC, which posted strong gains (+5.8%) boosted by the surprise corporate tax cut by India's government. The combination of tax cuts and lower interest rates is likely to boost economic growth and corporate profits in India. Other key outperformers were semiconductor equipment manufacturer ASML (+12.4%) and US aggregates producer Martin Marietta (+8.0%). The biggest detractors for the month were long term winners such as coffee company Starbucks, US mobile tower company Crown Castle, and information services company S&P Global.

Closer to home, it was a mixed month for our Australasian holdings. Notable outperformers included our featured stock Collins Foods (+16.0%), which operates KFC franchises, and Australian bank NAB (+8.6%). The largest detractors included long term holdings a2 Milk (-8.2%) and real estate investment trust Charter Hall Group (-7.9%).

For now, the global backdrop remains challenging, with geopolitical tensions causing a great deal of uncertainty. Reflecting this risk, the Fund has retained a higher allocation to cash that will be deployed as risks recede and we gain more clarity on the outlook.



\*Includes unlisted equity holdings of 2.07% \*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 30 September 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	0.20%	7.68%	6.50%	7.46%	9.31%	1.8358	124.1 M
KiwiSaver Balanced Fund	0.65%	8.65%	9.49%	9.89%	10.36%	2.4571	360.8 M
KiwiSaver Active Growth Fund^	0.92%	8.39%	10.72%	11.57%	12.82%	3.9729	1,488.6 M
KiwiSaver Aggressive Fund	-0.22%	—	—	—	—	1.0123	34.9 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, 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

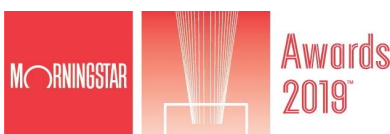
	Past month	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)
S&P/NZX 50 Gross Index (with imputation credits)	1.79%	17.96%	15.30%	17.12%	17.54%
S&P/ASX 200 Accumulation Index (AUD)	1.84%	12.47%	11.88%	9.50%	10.97%
S&P/ASX 200 Accumulation Index (NZD)	2.59%	10.83%	12.68%	8.57%	8.59%
MSCI World Index (local currency)*	2.34%	2.90%	10.86%	8.35%	11.24%
MSCI World Index (NZD)*	2.72%	7.66%	15.79%	11.95%	14.16%
S&P/NZX 90-Day Bank Bill Rate	0.10%	1.88%	1.98%	2.44%	2.57%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	-0.46%	10.65%	3.65%	4.12%	3.80%
S&P/NZX NZ Government Bond Index	-0.07%	9.63%	4.85%	6.02%	4.71%

\*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



FundSource 2018 KiwiSaver Manager of the Year

# Milford KiwiSaver Plan Monthly Review as at 30 September 2019

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

KiwiSaver Conservative Fund	KiwiSaver Balanced Fund
Societe Generale 4.875% 2024 1.68%	Contact Energy 2.14%
Bank Of China 3% 2020 1.41%	Spark New Zealand 1.82%
QBE 6.75% 2044 1.40%	a2 Milk Company 1.58%
John Deere 1.75% 2024 1.32%	Meridian Energy 1.21%
Vector 3.45% 2025 1.32%	Financial Select SPDR 1.18%
ANZ Bank 3.03% 2024 1.28%	Transurban Group 0.99%
Westpac 2.22% 2024 1.20%	Wellington Strategic Euro 0.89%
ANZ Bank Float 2024 1.19%	Vontobel Sust. EM Leaders 0.87%
JPMorgan 5% 2024 1.19%	QBE 6.75% 2044 0.84%
ING Group 1.45% 2024 1.15%	Wellington Global Health Care 0.84%

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 4.46%	Alphabet 2.03%
a2 Milk Company 3.45%	Microsoft Corp 1.99%
Spark New Zealand 3.38%	Financial Select SPDR 1.92%
iShares MSCI EAFE Min Vol ETF 3.15%	CME Group 1.90%
Visa 1.64%	Amazon 1.82%
Transurban Group 1.47%	Visa 1.70%
HCA Holdings 1.44%	Mastercard 1.66%
CYBG 8% 2049 1.41%	Crown Castle 1.59%
Microsoft Corp 1.35%	HDFC Bank 1.56%
Alphabet 1.29%	Danaher 1.52%

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 \$10.7 million invested in the Milford KiwiSaver Plan as at the end of September 2019.**





**William Curtayne**  
Portfolio Manager

## Investment Highlight - Collins Foods

Collins Foods is the owner and operator of KFC franchises in Australia and Europe and has been a core ASX holding for many years. It first listed in 2011 at \$2.50 a share but a series of earnings disappointments saw the shares fall to a low of \$1 in 2012. Earnings margins were being impacted, by rising labour and power costs, in a competitive fast food environment that made offsetting price rises difficult. Milford did not participate in the Initial Public Offering (IPO), but we began to have a closer look at the business after this large fall in the share price.

Many of our investors will remember the very strong returns that Restaurant Brands delivered for our Funds since purchase of the business at 50 cents a share in 2009. At the time the New Zealand economy was weak, but KFC stores still performed well as it was relatively inexpensive compared to other dining options. Restaurant Brands were also refurbishing their stores to a more modern look which was generating fantastic returns on capital. As a result, Restaurant Brands performed very well over the next five years.

We saw a similar scenario emerging for Collins Foods in 2012 and purchased our first shares at \$1.65. As with Restaurant Brands, the store refurbishments were a success and the share price continued to recover.

A number of other positive developments occurred for Collins Foods over the following years:

- Cost pressures and competition in the Australian fast food industry abated
- The acquisition of the Western Australian franchise network in 2013 for an attractive price
- Closing down its poor returning Sizzler franchise
- KFC put through minimal price increases for many years making their food more affordable than competitors such as McDonalds
- Introduction of delivery service through Deliveroo.

Collins Foods recently won the rights to rollout out Taco Bell stores in Australia with an initial target of 50 stores in three years. This is an exciting growth option for the business and the first Queensland stores are performing very well. Despite this we need to see the strong performance sustained for a number of years before we deem them successful.

Collins Foods shares are currently trading at \$10 and is a good example of how our experience in New Zealand helped us to be early on a great investment opportunity in the Australian market. KFC food continues to deliver great value for its customers which places Collins Foods in a favourable position to pick up market share or increase pricing to drive profit growth. We note Collins Foods' increasingly stretched valuation. The shares now trade at 22 times next year's earnings compared to 7 times earnings at our original purchase. This may not be a problem immediately, but any earnings disappointments in the future will see a larger share price correction given this valuation.



# Milford KiwiSaver Plan Monthly Review as at 30 September 2019

## Your KiwiSaver account, at your fingertips

KiwiSaver is a long-term investment, and while your retirement may not be immediately on the horizon, it pays to keep track of your account.

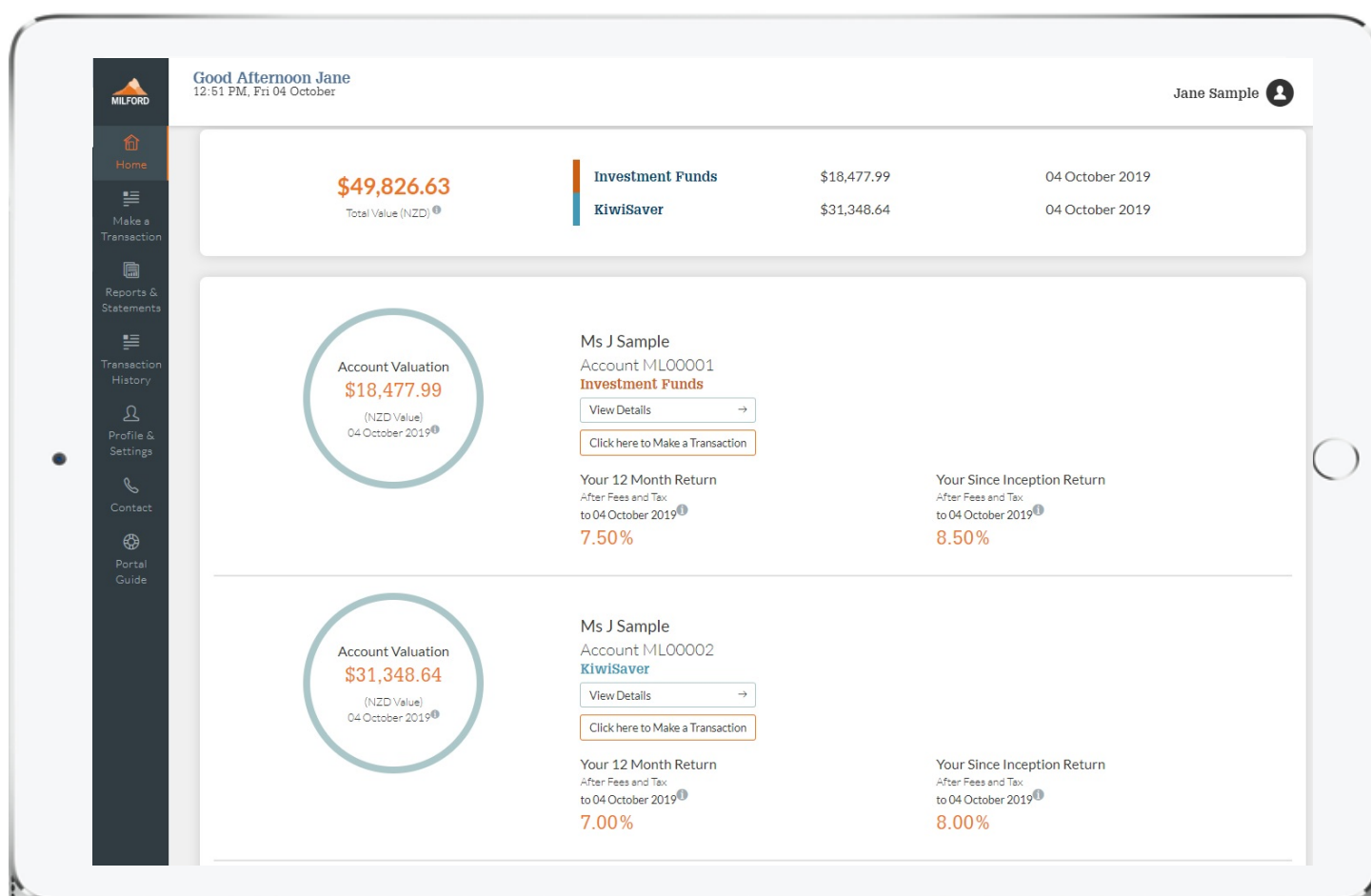
It's important that you can see where your hard-earned money is being invested, how it's performing and easily make changes to your account.

With the Milford Client Portal, at any time you can see your balance, personalised return (after fees and tax) and what types of assets you are invested in.



**Murray Harris**  
Head of KiwiSaver

## Inside the Client Portal\*



If you want to dive deeper, you can also view the top 100 companies and securities you're invested in and see historic transactions and statements.

Changes to your investment, such as switching between Funds and updating your personal details, can also be done at any time through the portal.

If you're not currently using the Client Portal, get in touch with the Investor Services team on [info@milfordasset.com](mailto:info@milfordasset.com) or 0800 662 346 and they can help get you started.

\* Numbers are for illustrative purposes only and do not represent any Fund or actual returns.



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