Milford KiwiSaver Plan Monthly Review
November 2019

Market and Economic Review

October delivered plenty of news to digest as we assess the investment outlook.

The US-China trade war continues to dominate the investment landscape - slowing economic growth via a weaker global manufacturing sector. Thus far the US has been relatively immune, but last month the widely followed US ISM survey of manufacturing business conditions posted the worst reading since the GFC. However, fears of imminent recession were mitigated by several other announcements:

- The US and China appear close to signing 'phase 1' of a trade deal, giving hope that at the very least, trade tensions are receding and not increasing
- Brexit finally yielded some positive news with signs of progress towards a UK-EU deal. While the final outcome is far from certain, investors appear relieved that the worst case 'no-deal Brexit' is less likely to occur
- US company profits reported in the month were much better than investors expected
- The US federal reserve cut interest rates for a 3rd time this year, providing insurance against further economic slowdown

These positives were enough to lift global share markets 1.9% over the month (MSCI World Net TR Index). In contrast, local share markets were weaker, with the NZX 50 Gross Index and ASX 200 Index down 1.3% and 0.4% respectively.

The NZ market was heavily impacted by the performance of the electricity companies, which fell sharply on the announcement that Rio Tinto are reviewing the viability of the Tiwai Point aluminium smelter. We see continued opportunities for positive returns from these companies in the longer term, but we have reduced some of our exposure to reflect the short-term uncertainty – locking in the strong returns delivered by the sector over the past year.

Despite this, our diversified Funds delivered positive returns for the month, illustrating the importance of diversification and good stock selection in these choppy markets.

Looking ahead, although some of the risks have receded, we are cognisant that they can rise again very quickly. The global economy remains precarious and we are looking for signs that the global interest rate cuts so far this year have started to stabilise the growth outlook. We remain invested; but with global share markets close to record highs we continue to expect that future returns will be more moderate.

KiwiSaver Conservative Fund

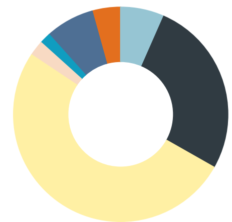
Portfolio Manager: Paul Morris

The Fund faced a headwind of mixed performance across both its bonds and shares but still delivered a modest return of 0.1% in the month. This represents a continuation of the recent moderation in returns we have been signalling but the Fund is still up a strong 8.5% over the past year.

October saw slightly negative returns from the Fund's Australasian bonds but a small positive return from its global bonds. Market interest rates have risen on diminished expectations for near term cash rate cuts here and offshore. However, the Fund’s corporate bond focus outperformed more pronounced weakness in government bonds. This outperformance was underpinned by an improving risk backdrop which also helped global shares, an exposure we have increased via buying call options on the S&P500 Index (for an upfront cost the Fund gets some benefit from a rise of the S&P500 but without the downside risk).

After recent strength, the Fund's Australasian share exposure was weaker, including a notable fall in NZ electricity shares related to news that the Tiwai Point aluminium smelter could potentially be closed. This was a small Fund exposure and was reduced due to the increased uncertainty. Looking forward, supportive monetary policy combined with recent increased confidence in the economic/company earnings outlook should help deliver moderate Fund returns.

Actual investment mix [1]



KiwiSaver Balanced Fund

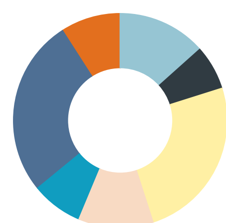
Portfolio Manager: Mark Riggall

The Fund returned 0.3% in October, bringing the 1-year return to 12.9%. The diversification of investments within the Fund was key in delivering a positive return this month.

Local NZ and Australian markets underperformed, with a notable fall in the electricity companies after the future viability of the Tiwai Point aluminium smelter was called in to question by its owner Rio Tinto. Australian shares fell as the banking regulator announced measures to strengthen protection for depositors - impacting bank profitability and causing their share prices to fall. Both of these events impacted performance during the month but were more than offset by strong performance in investments elsewhere.

Global shares had a good month as a US-China trade deal looks possible and in Europe a worst case 'no deal' outcome to Brexit looks less likely. Corporate bonds also performed well, outperforming government bonds as investors continue to look for higher yielding assets in a low interest rate environment.

Finally, a reduced exposure to foreign currencies helped during the month as the NZ dollar outperformed. It is unusual for all assets to move together in the same direction, particularly month to month, so the Fund’s diversification helps to cushion volatility within the Fund. We expect future returns to remain positive, albeit at a slower pace than in the past year.



†Includes unlisted equity holdings of 0.29% *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

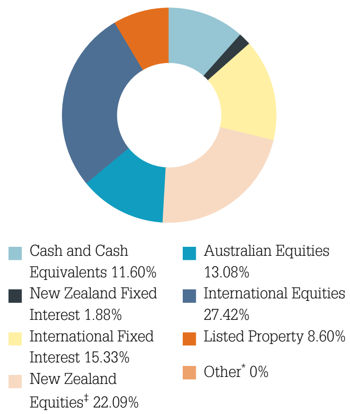
Portfolio Manager: Jonathan Windust

The Fund rose 0.2% in October with strong returns from global shares (+1.9%) offset by negative returns from Australian and New Zealand share markets. Global shares benefited from good earnings results and some reduction in market uncertainty. The performance of the Fund's global fixed income investments performed strongly with bonds from UK Banks CYBG and Barclays up 4.1% and 3.7% respectively with the prospects for a messy Brexit reducing.

Key company performers included AMA (+14.3%) in Australia, Serko (+11.9%) in New Zealand and HCA Healthcare (+10.9%) in the US. Serko provides travel management software and rose following news that it had a reached an agreement with global company Booking.com to use its software and take a 4.7% stake in the company. We believe Serko which has a dominant market share in Australasia has a significant opportunity to take its software global. AMA (the Australasian panel beating company) rose following an accretive acquisition, whilst HCA delivered a strong result.

During the month we increased the allocation to global shares given the reduction in global uncertainty. 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 [1]



KiwiSaver Aggressive Fund

Portfolio Manager: Stephen Johnston

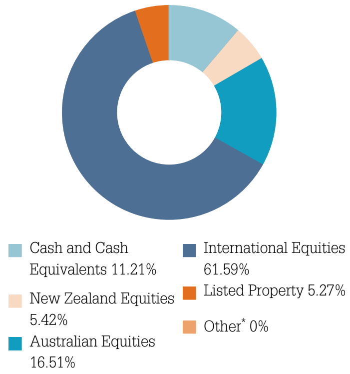
The Fund made a small gain in October (+0.1%), as markets responded positively to a reduction in geopolitical risks. Trade risks have receded with the US and China likely to sign the first phase of a trade agreement in November. In addition, concerns around Brexit have abated, with the European Union granting a three-month delay to 31st January 2020. In the interim, a new election will be held in the UK on the 12th December.

Top global performers included Align technology (+39.4%), best known for clear aligners used in orthodontics. Align posted encouraging third quarter earnings, with improving China demand, and the company expects this positive momentum to be maintained. Pigeon, the Japanese baby goods maker, also performed strongly (+19.4%) as their strong brand and e-commerce strategy in China boosts growth.

Other key outperformers were semiconductor company TSMC (+11.1%) and US hospital operator HCA (+10.9%). The biggest detractors were long term top performers such as US cosmetic company Estee Lauder (-6.4%) and US life sciences and diagnostics conglomerate Danaher (-4.6%).

In a strong month for our Australasian holdings, a key outperformer was AFG (+22.7%), benefiting from an improving Australian housing market. Another outperformer was investment platform provider Praemium, that rallied (+25.7%) after releasing strong quarterly flows. Medical company CSL (+9.6%) and property group Mirvac (+4.9%) also contributed positively.

The global backdrop is gradually improving, with geopolitical tensions easing and central banks around the world cutting interest rates to support the economic recovery. As a result of this policy easing, we expect economic data to slowly improve in the months ahead. With this more constructive view, we have been deploying more cash into our best ideas.



‡Includes unlisted equity holdings of 2.05% *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	0.15%	8.49%	6.80%	7.00%	9.21%	1.8385	127.3 M
KiwiSaver Balanced Fund	0.25%	12.93%	10.15%	9.54%	10.29%	2.4631	373.6 M
KiwiSaver Active Growth Fund^	0.24%	13.31%	11.48%	11.44%	12.75%	3.9821	1,511.1 M
KiwiSaver Aggressive Fund	0.11%	—	—	—	—	1.0134	42.4 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)	-1.21%	24.43%	17.00%	16.24%	16.79%
S&P/ASX 200 Accumulation Index (AUD)	-0.35%	19.28%	12.56%	8.47%	10.45%
S&P/ASX 200 Accumulation Index (NZD)	-0.50%	18.02%	12.93%	7.38%	7.94%
MSCI World Index (local currency)*	1.88%	12.49%	11.80%	8.51%	11.61%
MSCI World Index (NZD)*	0.27%	14.75%	16.01%	11.82%	14.15%
S&P/NZX 90-Day Bank Bill Rate	0.10%	1.81%	1.94%	2.40%	2.55%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	-0.17%	10.67%	3.93%	3.93%	3.73%
S&P/NZX NZ Government Bond Index	-1.08%	7.98%	4.94%	5.56%	4.50%

*With net dividends reinvested

Milford is the proud winner of multiple awards:

2018|2019 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 - Fund Manager of the Year 2019

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

KiwiSaver Conservative Fund	KiwiSaver Balanced Fund
Bank Of China 3% 2020 1.39%	Spark New Zealand 1.72%
John Deere 1.75% 2024 1.32%	Contact Energy 1.56%
Vector 3.45% 2025 1.28%	a2 Milk Company 1.50%
NZLGFA 1.5% 2029 1.27%	Microsoft Corp 1.01%
Westpac 2.22% 2024 1.20%	Transurban Group 1.01%
ANZ Bank Float 2024 1.18%	Alphabet 1.00%
JPMorgan 5% 2024 1.16%	Mirvac Group 0.91%
ANZ Bank 3.03% 2024 1.15%	Visa 0.87%
ING Group 1.45% 2024 1.14%	Financial Select SPDR 0.83%
ASB Bank 1.83% 2024 1.00%	HDFC Bank 0.83%

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 3.53%	Alphabet 2.63%
a2 Milk Company 3.33%	Microsoft Corp 2.57%
Spark New Zealand 3.30%	Financial Select SPDR 2.09%
iShares MSCI EAFE Min Vol ETF 2.91%	Amazon 1.87%
Microsoft Corp 1.78%	HDFC Bank 1.83%
Transurban Group 1.69%	Visa 1.77%
Visa 1.66%	CME Group 1.70%
Alphabet 1.55%	Mastercard 1.64%
HCA Holdings 1.53%	Taiwan Semiconductor 1.55%
Kiwi Property Group 1.35%	Crown Castle 1.41%

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 $10.8 million invested in the Milford KiwiSaver Plan as at the end of October 2019.

Felix Fok
Portfolio Manager

Investment Highlight - Ferrari
How to spot a thoroughbred

A Ferrari arouses the senses not only physically (the bodywork, the speed, the soundtrack!) but also intellectually.

Why would anyone pay $300k-$1m for a prancing horse-badged machine knowing that it will be caged by urban roads, spend most of its time in a garage, and incite the wrath of the Greta Thunbergs of the world? And how did a niche carmaker reach a market capitalization of $47bn, more than half of the value of BMW despite selling significantly fewer cars (10,000 vs. 2,500,000)?

In general, makers of passenger cars, including sports cars, are struggling. Slowing global economies, ever tighter emissions standards, and investment by carmakers. Shares of traditional European majors, like Volkswagen, Daimler (Mercedes) and BMW, are flat to lower over the last 5 years. High-end sports cars peer Aston Martin, listed in London, has seen its shares fall 65% in the past year and is in trouble after having to borrow funds at 12% interest.

Ferrari is not immune; it is just much better placed.

First, Ferrari is a luxury brand selling to the affluent, who are likely to have spending power even in a downturn. Example, ahead of the launch of the Laferrari Aperta in 2015 the company discretely invited 209 select, loyal owners to pre-commit $1m plus for their latest model, sight unseen – the acceptance rate was more than 90%. Such limited production models have added appeal as Ferraris are a blue-chip for investors in the market of classic cars. In 2018, a 1962 Ferrari 250 GTO changed hands for $70m; it was one of 36 made. Not all things limited-edition will appreciate over time, but the pedigree is clear. Ferrari's pricing power as a business is one of the strongest in the market.

Second, its participation in Formula One racing since 1950 and its founding history help build a brand image that is persistently tied to racing and performance. Since its founding, all Ferraris have been built in the small Italian town of Maranello with significant local labour and livelihoods tied to the company. The people working at Ferrari are proud to be associated with the company and Italy (note the main rivals to Ferrari in F1 are German, UK and French brands). This heritage adds to uniqueness and is very difficult to replicate.

Third, the tech from F1 racing can later be applied to road cars, driving innovation and technology leadership. For example, F1 cars have used batteries to recover energy from braking for some time; this helped Ferrari develop its hybrid system for its road cars. The company has a goal for 60% of its deliveries to be hybrid drive (petrol + electric) by 2022.

Lastly, Ferrari has done well with its Ferrari Store. These high-street brand stores sell apparel, memorabilia and customer experiences that help soften the public perception of and make accessible to the masses an otherwise ostentatious brand.

Its shares have performed well for us, up 39% in the past year. Since its debut on public markets in 2016, the share price is up 232%, a sign of a thoroughbred.

LaFerrari Aperta – only 210 were made. Ferrari discretely invited and pre-sold this $1m plus model to select loyal owners ahead of the unveiling of the car.

Why risk might not be as bad as you think.

Murray Harris
Head of KiwiSaver

For many, retirement may seem far away, but the reality is the decisions you make for your KiwiSaver account today will shape your financial future.

In order to make the most of your savings, it's important to be aware and comfortable with the relationship between your investment risk and your investment return.

Otherwise you could find yourself exposed to more risk than you'd like or on the other hand, too little risk, which can make it hard to generate the returns you need to ensure a comfortable retirement.

Your KiwiSaver investment is likely to go down as well as up, depending on the fund you choose. Generally, the higher the risk of your fund (e.g. growth funds), the more dramatic the ups and downs may be, but the potential for higher returns over time is greater. Returns are your reward for the risk you are taking on.

So, finding the level of risk you're comfortable with and is appropriate for your situation is key.

How do you know your appetite for risk?

Two things impact this decision, first is your investment time horizon; how much time do you have before you need to access your money? Do you have time on your side to ride out the bumps in the market?

Secondly, is your risk tolerance. Will you lose sleep at night worrying about your investment? Some people don't like uncertainty or seeing any fall in the value of their KiwiSaver investment.

Risk isn't bad, it is part of investing, but if it makes you nervous or you need to use your money in the short term you may want to reduce your level of risk. Conversely, if you don't need access to your money in the short term and your goal is to maximise your retirement savings, then being in a higher growth fund could be the right decision.

If you'd like help to explore your appetite for risk, we have a range of tools on our website to help you explore this further. A few minutes now could have a big impact on your financial future.