Milford KiwiSaver Plan Monthly Review
December 2019

Market and Economic Review

November saw investors embrace optimism for the first time this year as we inch closer to a trade deal and evidence builds of an emerging global growth rebound. Fund returns were strong this month, reflecting sharply higher share markets both locally and overseas.

For most of the year, investors have been concerned about the deteriorating global economic outlook, driven by the impact of the US-China trade war on global trade and the business sector. Recently there has been a pause in the escalation of tariffs and there is hope that a trade deal will be signed before Christmas, paving the way for improvements in business sentiment. This development has enticed investors off the sidelines and money has been put to work in shares across the globe, boosting prices.

When markets experience inflows it tends to be the larger stocks that benefit, and this was true in Australia and NZ this month with large cap stocks outperforming in both regions. However, November also saw plenty of opportunity for stock selection.

In NZ, positive trading updates from the likes of a2 Milk and Fisher and Paykel Healthcare saw these stocks up 19.4% and 15.7% respectively in the month. Elsewhere, a long-term shareholder in EBOS Group decided to sell a large stake at a discount offering investors a rare chance to buy the shares in good volume.

In Australia, the banks continue to strengthen their balance sheets and this time it was Westpac's turn to ask investors for A$2bn of more capital. Only days later, the company announced that they had been accused of breaching money laundering laws, sending the share price down 3.5% on the day. Infrastructure company Atlas Arteria also raised capital, asking for A$1.35bn to fund the purchase of a toll road in France. Despite these headwinds, the Australian market had a strong month, largely powered by the commodity stocks.

Looking ahead, the economic outlook has started to improve both domestically and further afield. However, we temper our expectations of future returns given share markets are already reflecting much of this improvement, and interest rates are already very low.

KiwiSaver Conservative Fund

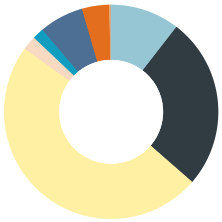
Portfolio Manager: Paul Morris

The Fund delivered a return of 0.5% for November, contributing to a 1-year return of 9.4%. Bond returns were mixed in the month, with strong performance from Australian bonds outperforming a close to flat return from NZ and global bonds.

In NZ, the anticipated November rate cut did not materialise while expectations for further global central bank rate cuts diminished. Returns from the Fund's shares were generally positive. Global shares had a strong month supported by an improving economic outlook. Australasian shares contributed a positive return, but the Fund's income share focus underperformed the broader share market. Considering ongoing risks to global growth (Brexit, trade) and our conservative risk profile, during the month we reduced some of the Fund's recently increased share exposure into market strength.

Looking ahead, ongoing supportive central bank monetary policy and low inflation should support bond prices with market interest rates likely to remain in recent ranges. Low interest rates and an improving economic backdrop should underpin share market returns. We therefore remain cautiously optimistic on the return outlook, maintaining slightly less defensive positioning relative to earlier in the year, but still with less shares than the long run neutral. We reiterate however that the price gains already posted by bonds and shares mean the recent moderation in Fund returns could continue in the near term.

Actual investment mix [1]



- Cash and Cash Equivalents 10.51%
- New Zealand Fixed Interest 25.92%
- International Fixed Interest 48.51%
- New Zealand Equities 2.14%
- Australian Equities 1.72%
- International Equities 6.70%
- Listed Property 4.07%
- Other* 0.43%

KiwiSaver Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 1.5% in November, bringing the 1-year return to 15.3%. Fund returns continue to be strong, benefiting from the sustained move higher in share markets.

With interest rates remaining low and signs of improving economic growth investors have been attracted to shares, partly because of the lacklustre returns on offer elsewhere (for example in bonds that currently offer very low yields). This was evident in the performance of the NZ and Australian share markets this month where broad inflows drove these markets up 4.9% and 3.3% respectively. Global share markets also fared well as investors became optimistic on the prospects of a US-China trade deal - alleviating some of the pressure on global trade that has been building over the past 18 months.

Looking ahead, it does appear that some of the dark clouds over the global economy are starting to part. This does leave us more predisposed to share markets, particularly global ones that have more to gain from improved growth and are more reasonably valued than local shares. However, we are also wary that in the short-term markets already reflect an improving growth outlook and so have increased cash levels in the Fund. Medium term, improving growth coupled with low interest rates is a good investing environment but with broad valuations of shares high, stock selection will be key.

- Cash and Cash Equivalents 11.43%
- New Zealand Fixed Interest 6.64%
- International Fixed Interest 25.22%
- New Zealand Equities† 11.60%
- Australian Equities 8.60%
- International Equities 27.22%
- Listed Property 8.85%
- Other* 0.44%

†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

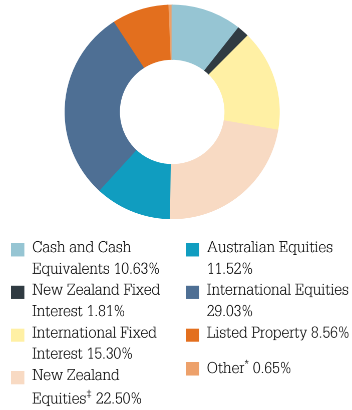
Portfolio Manager: Jonathan Windust

The Fund rose 1.9% in November with strong returns from share markets; global (+3.2%), New Zealand (+4.9%) and Australia (+3.3%). Shares benefited from increased investor appetite due to signs that economic growth had stabilised, and that trade and political uncertainty had reduced.

Key company performers during the month included a2 Milk (+19.4%) and retirement operators Metlife (+21.2%) and Summerset (+17.0%). a2 Milk benefited from a good trading update at its annual shareholder meeting forecasting revenue growth of approximately 30% for the first half of its financial year. Metlife rose following news that it had received an indicative bid for the company. Retirement operators also benefited from signs of strength in the key Auckland residential property market.

During the month, the Fund added to our holdings in EBOS, the healthcare distribution company, as part of a sell down by one of its major shareholders. We believe EBOS is well positioned to continue to grow earnings with strong management and a strong competitive position. Towards the end of the month we reduced some of the Fund's exposure to shares, taking profit after strong gains and reflecting the possibility of renewed political uncertainty. Looking forward shares remain supported by low rates, reasonable dividends and positive economic growth. Key headwinds are relatively high valuations, slowing growth and political uncertainty.

Actual investment mix [1]



KiwiSaver Aggressive Fund

Portfolio Manager: Stephen Johnston

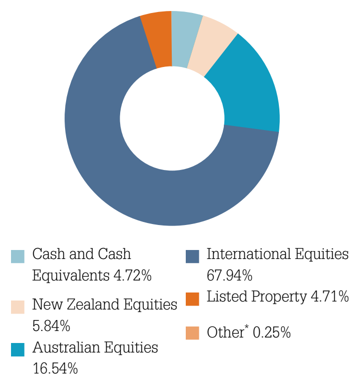
The Fund gained 2.7% in November. In general, global share markets made gains buoyed by signs that a preliminary trade deal between China and the US was close, as well as improving economic data. On the research front, the team recently returned from a trip to Japan where we uncovered some quality businesses.

Top performers in November included Alibaba (+13.2%), the Chinese e-commerce giant, that stands out as one of the best ways to tap into the rising wealth of the middle class in China. Alibaba shopping platforms are the go-to option for Chinese shoppers and despite its size, growth remains robust. Alibaba continues to expand its ecosystem by investing in exciting new areas of growth like cloud computing, digital payments and expansion outside of China.

Entertainment powerhouse Disney (+16.7%) performed well, as the launch of its direct-to-consumer ("DTC") service Disney+ started with a "bang", with a reported 10 million subscribers signing up on its first day of availability. Disney+ costs US$7 a month in the US and includes a number of their hit brands including Star Wars. DTC is now a major focus for Disney as it seeks to take on Netflix and shortly will be launching a bundled DTC product including Disney+ (for families and children), ESPN+ (for sports) & Hulu (for adults).

Other key outperformers were software titan Microsoft (+5.9%), and UK life-saving technology company Halma (+12.4%). The largest detractors were Home Depot (the US equivalent of Bunnings) that reported mildly disappointing results and one of our long-term winners IDEXX, the animal diagnostics specialist (-11.7%).

Closer to home, key positive contributors included a2 milk (+19.4%) after posting a positive trading update and cloud accounting company Xero (+17.8%), that released strong six-month results. The global backdrop is gradually improving, with geopolitical tensions easing and central banks around the world cutting interest rates. With this more constructive view, we have been deploying more cash into our best ideas.



‡Includes unlisted equity holdings of 2.00% *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	0.53%	9.39%	6.94%	6.91%	9.18%	1.8481	126.6 M
KiwiSaver Balanced Fund	1.54%	15.29%	10.61%	9.63%	10.37%	2.5008	387.5 M
KiwiSaver Active Growth Fund	1.88%	16.98%	12.39%	11.37%	12.83%	4.0568	1,569.1 M
KiwiSaver Aggressive Fund	2.73%	—	—	—	—	1.0410	51.5 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.
^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)	4.95%	29.46%	19.24%	17.18%	17.19%
S&P/ASX 200 Accumulation Index (AUD)	3.28%	25.98%	12.66%	9.90%	10.88%
S&P/ASX 200 Accumulation Index (NZD)	1.32%	24.85%	13.07%	9.21%	7.95%
MSCI World Index (local currency)*	3.15%	14.71%	11.98%	8.57%	11.87%
MSCI World Index (NZD)*	2.69%	22.56%	16.13%	12.17%	14.35%
S&P/NZX 90-Day Bank Bill Rate	0.09%	1.76%	1.91%	2.35%	2.53%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	-0.12%	10.00%	4.47%	3.72%	3.64%
S&P/NZX NZ Government Bond Index	0.04%	8.02%	5.45%	5.42%	4.50%

*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

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
Westpac 2.22% 2024 1.35%	a2 Milk Company 1.73%
Bank Of China 3% 2020 1.34%	Spark New Zealand 1.73%
John Deere 1.75% 2024 1.24%	Contact Energy 1.46%
Vector 3.45% 2025 1.22%	Microsoft Corp 1.24%
NZLGFA 1.5% 2029 1.21%	Alphabet 1.15%
ASB Bank 1.83% 2024 1.19%	Visa 1.09%
JPMorgan 5% 2024 1.13%	Financial Select SPDR 1.06%
ANZ Bank Float 2024 1.11%	Transurban Group 0.94%
ANZ Bank 3.03% 2024 1.11%	HDFC Bank 0.92%
ING Group 1.45% 2024 1.07%	Mastercard 0.90%

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
a2 Milk Company 3.68%	Microsoft Corp 3.18%
Spark New Zealand 3.36%	Alphabet 2.95%
Contact Energy 3.18%	Visa 2.73%
iShares MSCI EAFE Min Vol ETF 2.84%	Financial Select SPDR 2.48%
EBOS Group 2.04%	Mastercard 2.11%
Microsoft Corp 1.86%	Amazon 1.95%
Visa 1.71%	Alibaba Group 1.94%
Alphabet 1.56%	HDFC Bank 1.92%
HCA Holdings 1.53%	Walt Disney 1.79%
iShares MSCI EAFE Index Fund 1.47%	McDonald's Corp 1.75%

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 $11.0 million invested in the Milford KiwiSaver Plan as at the end of November 2019.

Sam Trethewey
Portfolio Manager

Investment Highlight - The a2 Milk Company

The a2 Milk Company has been a core holding in our equity portfolios since 2012 when the share price was below $1. Our initial investment was based on the company having a differentiated but largely unproven product and a passionate and highly incentivised management team led by CEO Geoff Babidge.

In the following years the company began to demonstrate some traction in the Australian fresh milk market, but it wasn't until 2015 when the company started to show some initial signs of success in the Chinese infant formula market. Since then a2 Milk has grown to become one of the largest companies listed on the NZX and has also moved into the top 100 companies listed on the ASX.

At a2 Milk's full year financial result in August this year, the company announced an intention to step up investment in their brand via increased marketing and associated infrastructure spend. On this news the share price has pulled back from highs of over $18.

New CEO Jayne Hrdlicka outlined to investors that she had spent the past year reviewing a2 Milk's market opportunity and was excited about the prospects ahead, but believed they needed to invest more to fully maximise the company's potential. She believed that it was in the best interest of a2 Milk shareholders to forego short-term profitability in favour of further investing in the brand in China and also in the US (to support a fresh milk product range).

Prior sales growth for the company had, to some extent, been driven by the highly cost efficient daigou channel (daigou is Chinese for "to buy on behalf of"), and growth in this channel has recently slowed due to increased regulation in China. Some shareholders took this announcement negatively given there is some uncertainty the increased investment in brand will be beneficial to the long-term value of the company.

Earlier this month, a2 Milk held its Annual Meeting in Auckland. The company provided an update to shareholders on how the company was tracking for the first half of the current financial year. Pleasingly, the update indicated the company experienced strong revenue growth across its distribution channels into China.

Key data points included +84% growth in their China label infant nutrition sales and +9% sales growth from the slowing Australasian English label product (the daigou channel). This was the first proof point for investors of the benefits of the new strategy, and since the annual meeting a2 Milk's shares have rallied 9.9%.

We believe that a2 Milk continues to have a differentiated product, a large market opportunity and a brand that is highly sought after by consumers. a2 Milk remains a core holding within our equity portfolios. We will continue to follow the company very closely.

How much is enough?

Murray Harris
Head of KiwiSaver

Have you ever stopped to ask yourself "how much is enough to live the retirement I've dreamed of?"

Through the wonders of modern medicine and better lifestyle choices we are living longer, more active retirements. Current NZ life expectancy estimates suggest on average a female aged 45 today will live until age 90; and a male will live to age 88. If you are aged 25 today the figures are 92 for a female and 89 for a male.

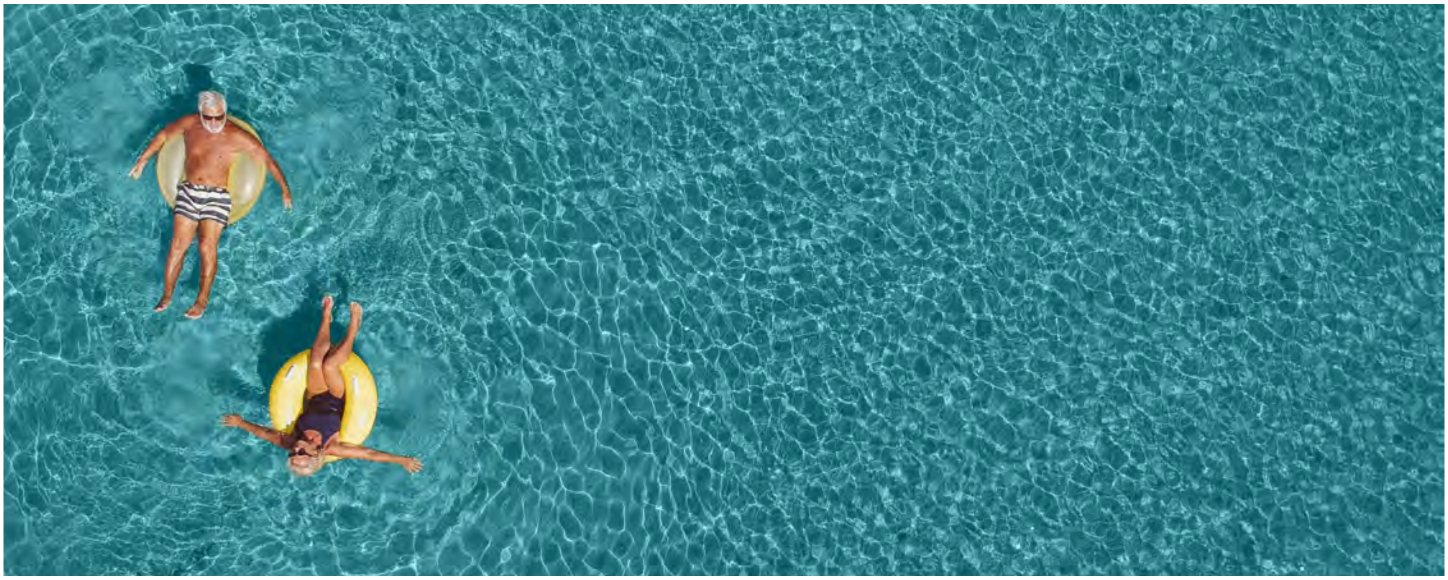
The bottom line is you don't want to run out of money before you run out of life!

So how much is enough to support you through this important phase of life?

Massey University has recently released their updated research on retirement expenditure specific to New Zealand households[1]. They see your potential retirement lifestyle being in two categories. "No-Frills" where you are likely to live a simple lifestyle with very few extras. And a more comfortable "Choices" retirement that includes a few luxuries such as overseas holidays and dining out.

So, how much would you need to live a "Choices" lifestyle in retirement? Massey University has indicated that a two-person household living in a city would need to have saved $787,000 and a two-person household living in the provinces would need to have saved $493,000. The research assumes the retirees live in their own home without a mortgage and the lump sum savings are used to supplement NZ Super payments of $632.54 per week for a couple.

To check and see if you're on track to live the lifestyle you desire in retirement, we have a number of tools available on our website to help you explore this further. A few minutes now could make a big impact on achieving your desired lifestyle in retirement.



1. Retirement Expenditure Guidelines produced by the Westpac Massey Fin-Ed Centre.

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