MILFORD

Milford KiwiSaver Plan Monthly Review
March 2020

Market and Economic Review

Global share markets started February very strongly, however growing concern about the impact of the coronavirus on world economic growth turned sentiment very quickly and by month's end had impacted markets significantly.

Milford Funds were not immune to this weakness, with most Funds falling in value over the month as markets fell sharply. Defensive positioning in our Funds ahead of the decline did, however, reduce the magnitude of these falls. Monthly returns should also be taken in the context of strong longer-term returns and extreme market volatility. All Milford Funds have taken steps over the past month to mitigate risks from the virus - for more details see each Fund's monthly update.

Although the virus has been prevalent in China since before Christmas, the spread to the rest of the world has only occurred in the past few weeks. Markets were seemingly slow to react initially with the NZ, Australian and US share markets all making all-time highs at the beginning of February. This gave rise to opportunity for us to reduce share market exposure in the Funds. We felt this was prudent in order to protect against the risk that the virus spread further and created negative effects on economic growth and share markets.

Globally, government responses to virus outbreaks have been to quarantine cases and cancel public gatherings such as sports events and conferences. This strategy of containment potentially carries a high economic price - evidenced by sharply weaker measures of business activity in China over the past month. Although we believe these economic impacts are likely to be transitory, it is this short-term economic slowdown that has share market investors worried, given the potential for weaker company profits.

However, other more market-friendly responses are forthcoming, including monetary policy easing and government support for struggling businesses - something already being enacted in China. As we pass through the shorter-term negative impacts of the virus, these policy responses can help recoup lost economic growth and stabilise markets.

Milford Funds are well placed to weather the current storm. Share markets are often punctuated by bouts of volatility and whilst not to downplay the human and economic costs of the coronavirus outbreak, episodes such as these create opportunities for investors with a longer-term investment horizon. The Milford investment team have been working hard to navigate the volatility and continue to position Funds appropriately for the outlook.

KiwiSaver Conservative Fund

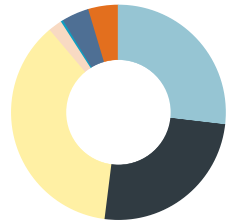
Portfolio Manager: Paul Morris

Despite a weak market backdrop, the Fund lost only 0.1% in February and is still up 8.4% over the past year. Going into the month positioning was slightly cautious (with less shares) as we were mindful of elevated valuations and heightened uncertainty associated with the coronavirus.

During February we further decreased the share allocation, reduced exposure to lower rated corporate bonds (which tend to underperform government bonds in uncertainty), increased sensitivity to interest rates (to benefit from falling rates) and increased cash. This served the Fund well as it reduced the impact of lower global and Australasian shares but increased the Fund's benefit from a fall in market interest rates associated with expectations for central bank rate cuts (as bond prices generally rose). The Fund also benefited from its small foreign currency exposure as the NZ dollar was weaker.

Until we get better clarity on the economic outlook we will retain this cautious positioning, even though we acknowledge improved valuations across some share and corporate bond markets. We will also retain the larger sensitivity to interest rates as protection against a further deterioration in the economic outlook, albeit rates are already very low. Looking forward, lower-for-longer interest rates, supportive monetary policy and possible government support should ultimately underpin bond and share markets but near-term uncertainty may see increased volatility.

Actual investment mix [1]



- Cash and Cash Equivalents# 26.86%
- New Zealand Fixed Interest 25.12%
- International Fixed Interest 36.84%
- New Zealand Equities 2.08%
- Australian Equities 0.35%
- International Equities 4.11%
- Listed Property 4.64%
- Other* 0%

The effective cash exposure (i.e. cash held at the bank) of the Fund is 12.0%. Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to reduce market exposure).

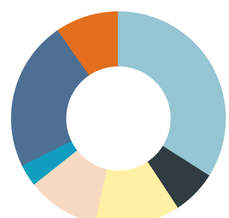
KiwiSaver Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned -2.6% in February, bringing the 1-year return to 12.2%. The coronavirus outbreak sweeping the world will have significant economic impact as governments respond by restricting movement of people and cancelling public events. Global asset markets are reacting with share prices falling dramatically from recent peaks and bond prices going up as investors flock to the safety of income investments.

For the Balanced Fund, a number of factors are helping mitigate against falling markets. Firstly, diversification and particularly cash and bond holdings help anchor the Fund and provide stability against share price falls. Secondly, exposure to shares was reduced mid-month to protect against potential falls as the virus spread globally. Finally, stock selection has helped as we try and ensure that we are invested in companies that would have less direct impact from the outbreak. As a result, the Fund fell significantly less than it could have, had these measures not been in place.

Asset prices, including shares and bonds, have started to price in a degree of economic slowing. However, uncertainty remains very high, especially with regard the degree of short-term economic impact. Due to this uncertainty the positioning in the Fund remains cautious. Milford's investment team continue to monitor the situation closely and Fund positioning will be adjusted accordingly.



- Cash and Cash Equivalents# 34.02%
- New Zealand Fixed Interest 6.73%
- International Fixed Interest 12.66%
- New Zealand Equities† 10.91%
- Australian Equities 3.32%
- International Equities 22.67%
- Listed Property 9.69%
- Other* 0%

The effective cash exposure (i.e. cash held at the bank) of the Fund is 16.6%. Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to reduce market exposure).

†Includes unlisted equity holdings of 0.31% *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

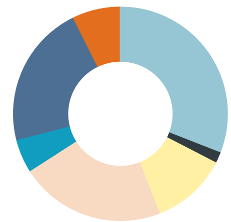
Portfolio Manager: Jonathan Windust

The Fund fell 2.9% in February and was negatively impacted by sharp falls in share markets with NZ, Australian and US share markets ending down 3.9%, 7.7% and 8.1% respectively. Share markets fell in response to the spread of the coronavirus outside of China and the potential negative impact on economic growth and company earnings from virus containment measures, such as reduced travel, quarantines, supply disruptions and consumer confidence.

Given these rising risks, which had not been fully reflected into share prices, the Fund reduced exposure to shares during the month to 56%. Typically the Fund averages around 78% in shares. Not all shares fell during the month with Fisher & Paykel Healthcare (FPH) (+10.6%) and a2 Milk (+8.7%) bucking the trend. FPH rose following an upgrade to its revenue and profit guidance as a result of strong growth in its Hospital product group - including increased demand from coronavirus. a2 Milk rose following a strong first half earnings result, which beat the market estimates, and its statement that it continues to see strong demand.

In the short-term markets are likely to remain volatile as investors focus on the potential impacts of the coronavirus. Whilst coronavirus will likely hit short-term economic activity and profits over the next year or so it has a much lower impact on the long-term value of companies. Additionally, stimulus measures are likely from governments and central banks (in the form of lower interest rates) which will help to cushion these economic impacts. Given the uncertainty caused by coronavirus the Fund is more cautious than typical with a lower allocation to shares and higher allocation to cash. The Fund remains active and will look to take advantage of market volatility to purchase shares at attractive valuations.

Actual investment mix [1]



- Cash and Cash Equivalents# 30.96%
- New Zealand Fixed Interest 1.63%
- International Fixed Interest 11.50%
- New Zealand Equities‡ 21.80%
- Australian Equities 5.05%
- International Equities 21.66%
- Listed Property 7.40%
- Other* 0%

The effective cash exposure (i.e. cash held at the bank) of the Fund is 17.8%. Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to reduce market exposure).

KiwiSaver Aggressive Fund

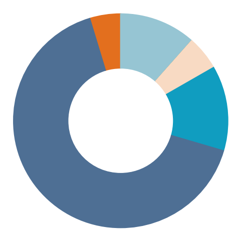
Portfolio Manager: Stephen Johnston

The Fund fell 4.7% in February. It was a roller coaster month for share markets, as strong early gains quickly turned to losses in the last week, triggered by the spread of the coronavirus and fears of a global economic slowdown. Central banks have responded by assuring that further policy action will be implemented to support the economy.

In a mixed month for global shares, there were several bright spots. Japanese cloud-based accounting/payroll software developer Freee (+8.3%), reported healthy results and continued its strong run since listing in Tokyo in December. Zillow (+20.8%) beat market expectations with its recent results. The US property website is reinventing its business by making instant cash offers to home sellers. The largest detractor was Martin Marietta (-13.5%), which owns quarries and sells crushed rock for US construction work. Results were impacted by weather, project delays, and unplanned maintenance. Otherwise, volumes and pricing grew steadily.

In Australasia, top contributors were a2 Milk (+8.7%) after reporting strong earnings, and Fisher & Paykel Healthcare (+10.6%) which is seeing an increase in Chinese demand for respiratory masks. In Australia, IDP Education (+19.6%) and gold miner Northern Star (+6.8%) performed well, while oil and gas producer Santos (-20.3%) declined.

We have increased our cash allocation in the Fund given the uncertainty surrounding the extent and duration of the epidemic, as well as the resulting economic impact. However, this period of share market weakness will provide buying opportunities in our favoured companies exposed to our long-term themes.



- Cash and Cash Equivalents 11.54%
- New Zealand Equities 5.16%
- Australian Equities 12.84%
- International Equities 65.78%
- Listed Property 4.68%
- Other* 0%

‡Includes unlisted equity holdings of 2.20% *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	-0.10%	8.40%	6.57%	6.17%	9.04%	1.8701	147.7 M
KiwiSaver Balanced Fund	-2.58%	12.22%	9.17%	8.34%	10.08%	2.4945	405.8 M
KiwiSaver Active Growth Fund^	-2.90%	14.02%	11.19%	10.10%	12.53%	4.0412	1,613.0 M
KiwiSaver Aggressive Fund	-4.74%	—	—	—	—	1.0278	80.7 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)	-3.86%	21.90%	17.51%	15.21%	16.03%
S&P/ASX 200 Accumulation Index (AUD)	-7.69%	8.64%	8.59%	6.17%	7.96%
S&P/ASX 200 Accumulation Index (NZD)	-7.16%	8.23%	7.81%	6.29%	5.35%
MSCI World Index (local currency)*	-8.10%	5.33%	7.05%	6.24%	9.49%
MSCI World Index (NZD)*	-4.48%	14.97%	12.87%	10.18%	12.88%
S&P/NZX 90-Day Bank Bill Rate	0.13%	1.56%	1.85%	2.24%	2.48%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	1.22%	10.22%	5.18%	3.93%	4.03%
S&P/NZX NZ Government Bond Index	1.52%	7.34%	5.93%	5.08%	4.78%

*With net dividends reinvested

Milford KiwiSaver plan is the proud winner of multiple awards:

2018|2019 consumer. PEOPLE'S CHOICE Milford KiwiSaver Plan

MORNINGSTAR Awards 2019™

ZENITH FUNDSOURCE AWARDS FUND MANAGER OF THE YEAR 2019

Consumer NZ People's Choice Award – KiwiSaver

Morningstar Fund Manager of the Year - KiwiSaver Category, NZ

Zenith FundSource Awards - Fund Manager of the Year

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

KiwiSaver Conservative Fund	KiwiSaver Balanced Fund
NZLGFA 1.5% 2029 1.43%	a2 Milk Company 1.69%
Westpac 2.6% 2020 1.26%	Spark New Zealand 1.60%
John Deere 1.75% 2024 1.19%	Contact Energy 1.43%
Vector 3.45% 2025 1.16%	Microsoft Corp 1.29%
ASB Bank 1.83% 2024 1.10%	Alphabet 1.21%
ANZ Bank 3.03% 2024 1.02%	Transurban Group 1.08%
Synlait Milk 3.83% 2024 1.00%	Fisher & Paykel Healthcare 1.06%
Lendlease 4.5% 2026 0.97%	Amazon 0.98%
ANZ Bank 1.6743% 2025 0.96%	Mirvac Group 0.91%
ANZ Bank Float 2024 0.92%	Visa 0.89%

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 3.69%	Microsoft Corp 3.44%
Contact Energy 2.94%	Alphabet 3.10%
Spark New Zealand 2.76%	Visa 2.28%
iShares MSCI EAFE Min Vol ETF 2.30%	Amazon 2.27%
EBOS Group 1.84%	Alibaba Group 2.17%
Fisher & Paykel Healthcare 1.74%	McDonald's 1.90%
Summerset Group Holdings 1.58%	CME Group 1.81%
Microsoft Corp 1.42%	Mastercard 1.75%
Alphabet 1.39%	Costco Wholesale Corp 1.60%
Visa 1.28%	S&P Global 1.59%

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 $11.1 million invested in the Milford KiwiSaver Plan as at the end of February 2020.

Michael Luke
Investment Analyst

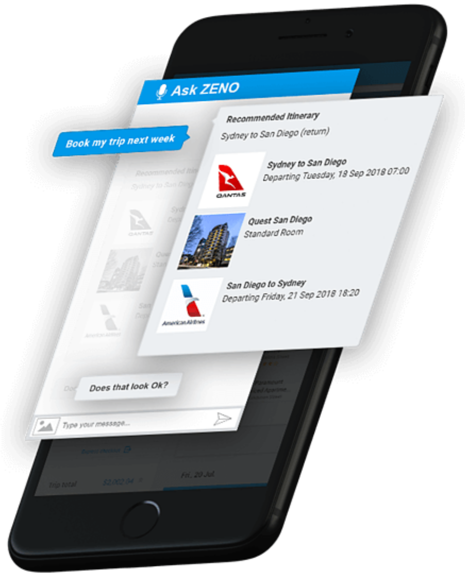
Investment Highlight - Serko

Serko is a technology company that has developed an online travel and expense tool for corporate travellers. It has been a favourite small cap holding in our funds since we participated in their 2014 initial public offering at $1.10. Our initial investment thesis was based on the company's technology and their passionate and highly driven management team led by CEO & Co-founder Darrin Grafton.

Like most industries, corporate travel has seen significant disruption due to the rise of technology. Traditionally, employees would book their flights and hotels through a travel agent over the phone or email, which is inefficient and costly, or book their own travel directly, which while easier made it hard for corporates to enforce travel policies and use company discounts. This saw corporate travel agents start to offer online booking tools like Serko, which allows travellers to book their own flights, hotels and transfers through a single platform, saving money and allowing agents to concentrate on complex bookings and support.

A range of tools have been around since the 1990's but they had limitations and the user experience was poor. Serko offers an independent solution that corporate travel agents can tailor and offer to their own customers, paying Serko a fee per booking. We use Serko at Milford and can see the potential of the product.

After Serko's listing, a series of earnings disappointments saw the share price fall to a low of 25c. While growth was slower than expected, Serko continued to invest in developing their product capabilities. In 2017 the value of this work became evident with the launch of Serko Zeno, a new and improved travel tool with an intuitive design that makes booking even easier. With Zeno, Serko were able to sign agreements with some large corporate travel agents to expand into North America and Europe triggering a significant increase in share price to above $5.00. These agreements include Booking.com, the world's largest online travel agency, who signed an agreement in late 2019 to offer Serko to their customer base. As a part of the agreement Booking.com acquired a 4.8% stake in Serko, which is a strong validation of their technology.



Today over 50% of Australasian corporate travel bookings use Serko and they have a large growth opportunity overseas. We do note Serko now trades at a high valuation and is not making a profit due to continued investment in growth. We continue to follow the company closely.

Keep calm and carry on

Murray Harris
Head of KiwiSaver

Investors have been reminded over recent weeks that financial markets can go down rapidly, as we have seen with the reaction to the spread of coronavirus around the world. Investor confidence has not been helped by a steady stream of bad news, and in some cases sensationalist headlines. However, reacting to these headlines is not a good investment strategy, as experienced investors will attest to.

It is human nature to be concerned by bad news. But it's how we react to that news that matters the most when it comes to your investments.

In it for the long term

KiwiSaver is a long-term investment. Most KiwiSaver members won't be touching their KiwiSaver funds until they reach age 65. Markets are notorious for going up and down in value over the short-term. But over the long term, they tend to go up. History shows that sticking with your plan and staying invested through the ups and downs delivers a better outcome at retirement.

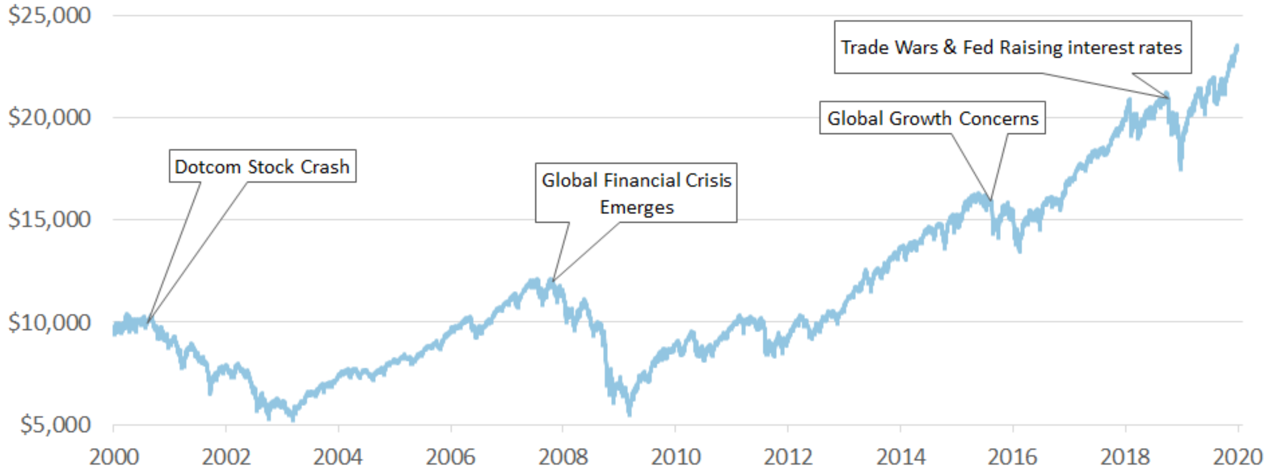
Buy a bargain

Another benefit of KiwiSaver is what's known as dollar cost averaging. This is where instead of trying to time market highs and lows, you make regular investments no matter what the price is. For KiwiSaver this is your regular contribution. When prices drop, as they have recently, you are buying more for your money. Think of it like the Boxing Day sale for your KiwiSaver account. Then, when markets recover, as history suggests they will, you benefit from having bought at a discount.

If you're losing sleep – it might be time to review

Times of market volatility can also be a good reminder to check your appetite for risk and that you are in an appropriate Fund for the risk you are willing to take and the savings goals you are aiming to achieve. We provide a very helpful tool on our website here to help you work this out. Now might be a good time to do a check-up, but remember, don't let recent headlines cloud your decision making. You may be better to just keep calm and carry on.

Beware the noise – Markets reward long term discipline



Source: Bloomberg, MSCI Data 03/01/2000 - 31/12/2019. Past performance does not guarantee future returns.

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