MILFORD

Milford KiwiSaver Plan Monthly Review
May 2020

Market and Economic Review

Global financial markets have begun to reflect optimism that the worst of the virus is over and have recovered sharply from their losses in March. Accordingly, Fund returns are strong in April.

Although the toll on healthcare systems around the world has been significant, the direst predictions appear to have been avoided. Social distancing has slowed the spread of the virus and governments are beginning to relax some of the more extreme lockdown measures.

Furthermore, actions by governments and global central banks has provided stimulus and restored functioning of debt markets, helping ensure that companies have access to funding.

These positives have emboldened investors to buy shares, reversing a large portion of the previous losses. However, there remains significant risks:

- Economic data is revealing the extent of the damage to economies and company earnings.
- Whilst the spread of the virus is slowing, a vaccine is a long way off. Life, and economic activity, will remain impaired for some time.
- A war of words is emerging between the US (and others) and China over blame for the virus, increasing geopolitical risk.

These risks and the ongoing uncertainty keep our Funds defensively positioned with reduced exposure to growth assets such as shares. Government bond yields are already very low (i.e. prices high) and share markets are elevated against the backdrop. The outlook is likely to see ongoing swings up and down as we have previously outlined.

Milford invests in companies, not markets. The current environment will see winners and losers emerge. The investment team is focussed on evaluating companies on their own merits, assessing current asset prices in the context of both near-term challenges and the longer-term outlook.

One theme emerging out of the crisis is the 'accelerating trend to digital' as people socialise, shop, entertain themselves and work over the internet. Milford's Global Team has been finding opportunities in this theme for our funds to invest in and shares of tech companies have been outperforming. See the KiwiSaver Aggressive Fund commentary for more information.

In local markets the dominant theme has been companies raising capital from share investors. Similarly, here we have been evaluating the merits of each of those deals and investing appropriately. We expect more companies will require capital in the coming months, and this could provide some excellent long-term investment opportunities.

The environment is highly uncertain, creating volatility but also opportunity. We continue to be active, focussing on the opportunities to invest to deliver strong long-term investment returns.

KiwiSaver Cash Fund

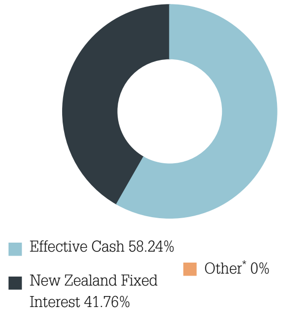
Portfolio Manager: Paul Morris

The Reserve Bank of New Zealand (RBNZ) has introduced multiple funding programmes to underpin liquidity in money markets. Coupled with its quantitative easing (bond buying) programme some normalcy has therefore returned to market functioning.

Nevertheless, given the ongoing uncertain backdrop the Fund has retained its focus on liquidity, diversification and higher credit quality exposures. We reiterate previous guidance that this cautious Fund strategy and the now lower Official Cash Rate (OCR) are likely to result in lower absolute Fund returns over the near and medium term. It should however maximise liquidity and protect capital given the uncertain backdrop.

Looking further out, we believe the risk remains that the RBNZ may yet cut the OCR below zero. If that was realised, then it would further weigh on Fund returns but we believe most of the Fund's investable universe would likely (at least initially) still retain non-negative interest rates.

Actual investment mix [1]



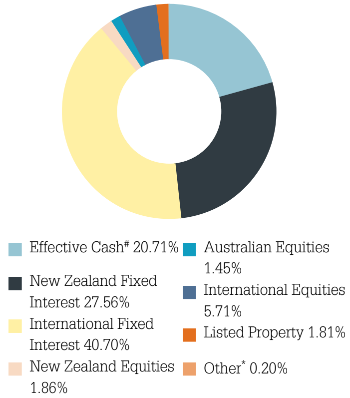
KiwiSaver Conservative Fund

Portfolio Manager: Paul Morris

A wave of extraordinary policy action, coupled with signs economies may be coming out of lockdown, has helped both share and corporate bond markets recover some of March's weakness. This was to the Fund's benefit, noting its bond holdings are primarily corporate bonds (albeit exposure to government/government related bonds has been increased). The market recovery contributed to the Fund regaining some value in April, up 2.5% in the month, equating to a 1-year return of 3.5%.

Mindful of its conservative risk profile, the Fund had started the month with a very cautious risk setting; significantly less shares, less lower rated corporate bonds and more cash than its long run neutral. As the breadth of the unprecedented fiscal and monetary policy response became evident, we did slightly reduce cash holdings by increasing exposure to both shares and corporate bonds. These additions were focused in shares and corporate bonds of companies with resilient balance sheets which operate in defensive sectors. They are therefore better equipped to deliver reasonable medium-term returns, especially when supported by ongoing central bank support.

Looking forward, until there is improved clarity as to the duration and impact of the economic shutdowns our focus will remain more on attempting to limit capital losses, even if that means missing out on some market upside. Therefore, for now the bar is still set reasonably high to materially add further to the Fund's risk settings.



The actual cash held by the Fund is 9.88%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

*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 Moderate Fund

Portfolio Manager: Mark Riggall

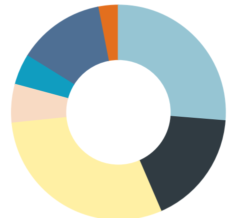
Global share markets rebounded strongly in April, helping the Fund deliver a return of 3.8% for the month. The Fund has been retaining a defensive stance since inception with a lower exposure to shares than its neutral position.

In April, investors expressed optimism that the worst of the virus was over as lockdowns reduced the spread. Our view remains that we are in the early stages of this outbreak and economic activity will be impaired for a long time, notwithstanding that we are already experiencing an economic slowing at a faster pace than we saw during the Global Financial Crisis. Accordingly, share exposure has been reduced in the Fund across the US and Australia.

The performance in April was boosted by good stock selection across all regions where the Fund is invested. We see good opportunity in understanding the vastly differing outlook for various companies, assessing that against the value on offer and investing accordingly. For the Moderate Fund this means investing through the underlying Milford funds whilst maintaining a defensive overall stance.

The Fund's bond holdings are focussed on high quality company bonds where there is extra return on offer and market support from global central banks. Market interest rates are already at very low levels, therefore government bonds offer little utility as defensive holdings. Protection from further volatility will come from reduced share exposure and appropriate stock selection.

Actual investment mix [1]



- Effective Cash# 26.27%
- New Zealand Fixed Interest 17.25%
- International Fixed Interest 29.86%
- New Zealand Equities 5.81%
- Australian Equities 4.62%
- International Equities 13.10%
- Listed Property 3.09%
- Other* 0%

The actual cash held by the Fund is 13.42%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

KiwiSaver Balanced Fund

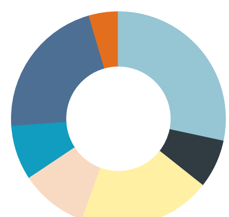
Portfolio Manager: Mark Riggall

Global share markets rebounded strongly in April, helping the Fund deliver a return of 5.1% for the month, 1-year returns stand at 3.0%. The Fund has been retaining a defensive stance with a lower exposure to shares.

In April, investors expressed optimism that the worst of the virus was over as lockdowns reduced the spread. Our view remains that we are in the early stages of this outbreak and economic activity will be impaired for a long time, notwithstanding that we are already experiencing an economic slowing at a faster pace than we saw during the Global Financial Crisis. Accordingly, we have reduced share exposure in the Fund across the US and Australia.

The performance in April was boosted by good stock selection across all regions where the Fund is invested. We see good opportunity in understanding the vastly differing outlook for various companies, assessing that against the value on offer and investing accordingly. For the Balanced Fund this means investing through the underlying Milford funds whilst maintaining a defensive overall stance.

On the bond side the preferred exposure is through company bonds where there is extra return on offer and market support from global central banks. Market interest rates are already at very low levels, therefore government bonds offer little utility as defensive holdings. Protection from further volatility will come from reduced share exposure and appropriate stock selection.



- Effective Cash# 28.37%
- New Zealand Fixed Interest 7.31%
- International Fixed Interest 19.79%
- New Zealand Equities† 10.16%
- Australian Equities 8.22%
- International Equities 21.58%
- Listed Property 4.57%
- Other* 0%

The actual cash held by the Fund is 12.94%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

†Includes unlisted equity holdings of 0.24% *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.

Milford KiwiSaver Plan Monthly Review as at 30 April 2020

KiwiSaver Active Growth Fund

Portfolio Manager: Jonathan Windust

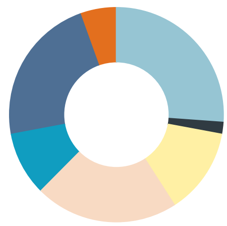
The Fund rose 6.1% in April and benefitted from the rebound in share and fixed income markets. The NZ, Australian and global share markets ending up 7.5%, 8.8% and 10.5% respectively. Share markets reacted positively to enormous stimulus measures from governments and central banks aimed to help cushion the negative impacts from the coronavirus. We were pleased to largely keep up with the markets' performance during the month despite being defensively positioned with higher levels of cash. Performance was aided by good company selection.

Key positives during the month included companies which rebounded from sharp falls last month including NZ retirement company Summerset (+11.9%), US home Builder DR Horton (+38.9%) and Australian real estate company Scentre Group (+48.9%). The Fund's US technology investments also continued to perform strongly including Google (+16.0%), Microsoft (+13.6%) and Apple (+15.5%). We believe these large cap technology companies are structural winners given their strong market positions in attractive and growing markets. In particular we believe the cloud infrastructure and related services is likely to continue to grow strongly with growth potentially accelerated by work from home trends. Gold companies also performed strongly during the month.

The Fund was very active during the month with opportunities created by market movements and new issues. Generally, we added to structural winners and more defensive companies whilst taking profits on some of the companies which had rebounded strongly towards the end of the month. The Fund participated in the discounted issues of companies looking to shore up their balance sheets including Auckland Airport, Kathmandu, Flight Centre and National Australia Bank. These rose strongly with Kathmandu ending up 58% from its issue price.

In the short-term markets are likely to remain volatile given the very uncertain impact of the coronavirus on economies, company earnings and valuations. However, the medium-term impact on company earnings and valuations is lower with many companies' earnings likely to rebound strongly and some even benefiting. The Fund contains a mix of company investments including structural winners, defensive companies and those which have been oversold on short-term issues. In aggregate, however, the Fund remains cautious given the uncertain environment with a lower allocation to shares and higher allocation to cash than typical. We remain excited that this market will provide great opportunities for active management.

Actual investment mix [1]



The actual cash held by the Fund is 8.37%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

KiwiSaver Aggressive Fund

Portfolio Manager: Stephen Johnston

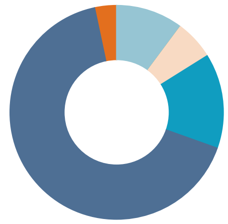
The Fund gained 9.3% in April, bouncing back from the dramatic selloff in March. The positivity in share markets relates to the aggressive policy actions globally and signs that new COVID-19 case increases may be peaking out. You could argue the bounce may be a little premature, given the raft of dreadful economic data we expect in the coming months, but nonetheless it is a positive sign.

Our technology holdings once again performed strongly in April. The impact of self-quarantine policies and social distancing rules have increased our reliance on some of the big tech companies' services that we own in the Fund. For example, buying groceries using e-commerce (Amazon & PayPal), or online entertainment (Activision Blizzard & NCSoft), or staying connected with work colleagues (Microsoft) as well as friends and family (Google & Tencent). It seems likely that some of these changes in consumer behaviour will be permanent, therefore benefiting our companies in this digital transformation.

Key positive contributors included Amazon (+26.9%), backing up the strong outperformance in March as more investors buy into the 'Working From Home' trend. Another strong performer was Alphabet (parent company of Google, +16.0%), that released in-line first quarter results and noted some stabilisation in the advertising market in April. Payments company PayPal (+28.5%) and Microsoft (+13.6%) were other strong performers.

The biggest detractor during April was Fisher & Paykal Healthcare (-9.8%) as investors booked profits after a stellar performance, still up 23% year to date to the end of April. Profit taking also hit Japanese healthcare company Terumo (-4.0%), while luxury brand Kering (-3.3%) has been hurt by store closures in Asia.

For now, given the uncertainty surrounding the pandemic we expect a bumpy road ahead. However, we continue to take an opportunistic approach in this market volatility, by identifying high quality businesses that will emerge from this downturn even stronger.



The actual cash held by the Fund is 10.77%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

‡Includes unlisted equity holdings of 1.57% *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.

Milford KiwiSaver Plan Monthly Review as at 30 April 2020

Fund Performance

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	Since Fund inception (p.a.)	Unit price $	Fund size $
KiwiSaver Cash Fund	0.04%	—	—	—	—	1.0005	12.3 M
KiwiSaver Conservative Fund	2.54%	3.49%	4.94%	5.40%	8.45%	1.8211	196.2 M
KiwiSaver Moderate Fund	3.84%	—	—	—	—	1.0377	7.8 M
KiwiSaver Balanced Fund	5.15%	3.02%	6.32%	7.19%	9.41%	2.3823	378.8 M
KiwiSaver Active Growth Fund^	6.12%	1.60%	7.92%	8.57%	11.74%	3.7718	1,474.2 M
KiwiSaver Aggressive Fund	9.32%	—	—	—	—	1.0049	92.9 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.
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, KiwiSaver Cash Fund: 27 March 2020, KiwiSaver Moderate Fund: 27 March 2020.
^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)	7.51%	6.06%	13.73%	13.97%	13.82%
S&P/ASX 200 Accumulation Index (AUD)	8.78%	-9.06%	1.92%	3.46%	5.38%
S&P/ASX 200 Accumulation Index (NZD)	11.91%	-8.56%	1.06%	3.96%	3.42%
MSCI World Index (local currency)*	10.51%	-3.77%	4.98%	5.32%	8.07%
MSCI World Index (NZD)*	6.59%	3.77%	8.80%	9.43%	12.03%
S&P/NZX 90-Day Bank Bill Rate	0.07%	1.46%	1.81%	2.16%	2.45%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	1.62%	8.25%	4.97%	3.93%	3.80%
S&P/NZX NZ Government Bond Index	2.72%	8.49%	6.39%	5.52%	4.77%

*With net dividends reinvested

Milford KiwiSaver plan is the proud winner of multiple awards:

2018 | 2019 | 2020 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 Awards - Fund Manager of the Year

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

KiwiSaver Cash Fund	KiwiSaver Conservative Fund	KiwiSaver Moderate Fund
NZLGFA 0% 2020 6.47%	Bank Of China 2.4% 2020 1.84%	Spark New Zealand 1.09%
NZ Government 0% 2020 2.59%	NZLGFA 1.5% 2029 1.48%	Bank Of China 2.4% 2020 1.00%
Auckland Airport CD 2020 2.14%	Housing NZ 3.36% 2025 1.32%	a2 Milk Company 0.88%
Kiwibank 2.1% 2020 2.01%	John Deere 1.75% 2024 1.23%	NZLGFA 1.5% 2029 0.88%
Westpac CMD 2020 1.98%	Westpac 2.22% 2024 1.16%	Contact Energy 0.87%
Bank Of China 2.4% 2020 1.95%	ASB Bank 1.83% 2024 1.14%	Lendlease 4.5% 2026 0.83%
ANZ 1.44% 2020 1.94%	ANZ Bank 3.03% 2024 1.03%	Transurban Group 0.82%
NZ Treasury 0% 2020 1.94%	Lendlease 4.5% 2026 1.03%	Alphabet 0.81%
Meridian CD 2020 1.94%	Synlait Milk 3.83% 2024 0.96%	Housing NZ 3.36% 2025 0.79%
Transpower CD 2020 1.94%	ANZ Bank Float 2024 0.94%	John Deere 1.75% 2024 0.77%

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 Balanced Fund	KiwiSaver Active Growth Fund	KiwiSaver Aggressive Fund
Spark New Zealand 1.70%	a2 Milk Company 4.11%	Microsoft Corp 3.47%
a2 Milk Company 1.67%	Spark New Zealand 3.40%	Alphabet 3.43%
Alphabet 1.43%	Fisher & Paykel Healthcare 3.35%	Amazon 3.17%
Contact Energy 1.38%	Contact Energy 2.98%	Alibaba Group 2.38%
Microsoft Corp 1.32%	Commonwealth of Australia 5.5% 2023 2.26%	Apple 2.20%
Fisher & Paykel Healthcare 1.18%	Alphabet 1.75%	Health Care Select SPDR 2.00%
Amazon 1.17%	Microsoft Corp 1.74%	Visa 1.84%
Transurban Group 1.13%	Alibaba Group 1.59%	ANSYS 1.77%
Apple 1.01%	Summerset Group Holdings 1.52%	Mastercard 1.66%
Alibaba Group 0.96%	Charter Hall Retail 1.25%	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 $10.6 million invested in the Milford KiwiSaver Plan as at the end of April 2020.

Stephen Johnston
Portfolio Manager

Investment Highlight - Idexx Laboratories

Given my farming background, I have always taken a strong interest in companies involved in agriculture and animal (pet) healthcare. One of my favourites is Idexx Laboratories, an American multinational company that is one of the top providers of animal healthcare diagnostics, veterinary equipment and software. Think of diagnostics as testing for illnesses and it is obviously very important in animals because unlike humans, they can't tell you what is wrong with them.

Idexx has three main business segments, its companion animal (pet) business that represents the majority of their revenue, a livestock, dairy and poultry business, and finally, a smaller water testing business. Over the years, we have met with Idexx management on several occasions and have been impressed with their vision for the company and quality facilities.

Idexx offers a full set of in-house instruments that vets can use for real-time testing (urine and blood) but the "jewel in their crown" is their very profitable reference (external) laboratories business. These labs can carry out a wider range of tests and screening for illnesses such as cardiac or kidney disease, as well as parasites etc. This business has fantastic growth prospects as vets prescribe more tests and there are international opportunities for Idexx where the use of diagnostics is in its infancy, relative to the US. Additionally, Idexx has a piece of software that ties everything together, helping the vet run the practice as well as saving testing results into patient files. The breadth of offerings makes Idexx a compelling partner for vets.

Idexx taps into a number of very exciting long-term investment themes, including "pet humanisation" where we are increasingly treating our pets like members of the family, and that is driving a spending boom.

Globally, the number of pets continues to grow and statistics show the more affection you have, the more you spend, benefitting Idexx. It is definitely happening in my household! Global spending on pet care is projected by Global Market Insights, a market research firm, to surpass US$260 billion by 2025, an exciting prospect for our companies exposed to this theme. Millennials are the pet generation and surveys show money is no object when it comes to their pet's health.

Key attributes we like include:

- Historically, pet spending is resilient in downturns because of our attachment to our pets.
- Animal healthcare is less regulated than human healthcare and has faster product cycles.
- Idexx's edge over competitors is its focus on innovation, accounting for approximately 80% of total research & development in the animal diagnostic market.
- A durable recurring revenue model, in that the instruments and analysers Idexx provides the vets, also use consumables that Idexx produces.
- A long track record, increasing revenue and earnings for 20 consecutive years.

Over the last 20 years, Idexx has generated a total return of 4,056% in US dollars, a return of 40 times the S&P 500 (largest 500 companies in the US) which is up just 155%. Whilst returns may moderate from here given its out-performance and high valuations, we still think the company offers fantastic long-term opportunities, given the attractiveness of the pet industry.

The patent wall at the Idexx main offices in Maine, USA.

Disclaimer: This article is intended to provide general information only. It does not take into account your investment needs or personal circumstances. It is not intended to be viewed as investment or financial advice. Should you require financial advice you should always speak to an Authorised Financial Adviser. Past performance is not a guarantee of future performance.

Milford KiwiSaver Plan Monthly Review

MILFORD

Thank you for rating us the People's Choice KiwiSaver Provider 3rd year running

In these times of uncertainty and change we were delighted to receive some very good news recently. The Milford KiwiSaver Plan has been awarded the Consumer NZ People's Choice Award for the third year in a row.

Murray Harris
Head of KiwiSaver

Consumer NZ has been working tirelessly for 60 years for the rights of NZ consumers, and to ensure the products and services we purchase are reliable, trustworthy and do what they say. With such a long history and expertise in making sure consumers are getting a good deal, we are very happy on behalf of our KiwiSaver members to have received this award once again. To determine the winner of this award Consumer NZ survey KiwiSaver members across the wide selection of available providers and ask members to rate their provider on measures such as communication, service, ease of transacting, fees and performance and overall satisfaction.

The most pleasing thing about this award, compared to any other we have won over time, is this is your voice – the voice of our members responding to how you feel about your experience with the Milford KiwiSaver Plan. If you were one of our members who participated in the survey – thank you very much! Everyone at Milford works very hard for the benefit of our members, so to receive such high recognition for three years running is very satisfying for all the Milford Team.

KiwiSaver Q&A video series

After the turmoil of markets in March it was pleasing to see fund performance recovering well in April. We understand it can be unsettling to see your KiwiSaver balance move up and down with swings in financial markets, but remember, for most people KiwiSaver is a long-term investment in your retirement and therefore you should not panic when your balance falls.

To help guide you during these times of uncertainty and to answer some of the most asked questions of our members we started our KiwiSaver Q&A Video Series in March. These are short (2 min) video clips the team have been recording whilst working at home, which we have posted on Facebook and LinkedIn. We hope you've enjoyed them. You can also find each of the videos on our website.

Please keep your questions coming via 0800 662 346 or email info@milfordasset.com and we will do our best to continue answering them for you. In the meantime, stay safe and stay well.

Disclaimer: The Milford Monthly Review has been prepared by Milford Funds Limited. It is based on information believed to be accurate and reliable although no guarantee can be given that this is the case. No reproduction of any material either in part or in full is permitted without prior permission. For more information about the Funds please refer to the Product Disclosure Statement or the latest Quarterly Fund Update.