Milford KiwiSaver Plan Monthly Review
June 2020

Market and Economic Review

May saw share markets continue their strong run, building on the recovery from the March lows.

Around the world countries have been relaxing Covid-19 lockdown restrictions, either due to few cases as in NZ & Australia, or because of political pressure e.g. in the US. This has seen economic activity lift from extremely depressed levels, and we are seeing improvements in many of the economic indicators we follow.

Our Funds participated well in May's rally. We have increased exposure to Australian shares over the month, taking advantage of attractive valuations and an improving economy that is dealing with the Covid-19 crisis relatively well. Australian shares performed strongly in the month, particularly smaller companies.

Companies continue to raise capital by selling new shares in Australia and NZ. These have provided investment opportunities for the Funds but in May it paid to be more discerning on the deals. The recent Australian Finance Group raising was just one example where we topped up our investment in a company already well known to us and were rewarded with strong subsequent performance.

The KiwiSaver Aggressive Fund's holdings in quality growth companies such as Freee (Japanese accounting software company) and PayPal (global payment technology company) performed well. In a world with limited growth opportunities investors continue to like companies with a strong earnings growth outlook.

Despite the improving global economic activity we are becoming more wary of the outlook. Share market performance has run ahead of economic recoveries in the short term leaving many share markets elevated in the face of a potential second wave of the virus. In the medium term, global unemployment will remain persistently high and government support packages are focused on the short term. This will impair economic growth and company earnings. In addition, increasing US-China tensions in recent weeks add to the potential issues for investors to navigate.

Given the strong run in markets we are selectively looking to reduce exposure to those companies whose valuations have exceeded our expectations.

KiwiSaver Cash Fund

Portfolio Manager: Paul Morris

During the month the Reserve Bank of New Zealand (RBNZ) indicated very strongly that its Official Cash Rate (OCR) will not go negative at least until end of March 2021.

Thereafter however a negative OCR remains a real possibility. If a negative OCR was realised that might see parts of the Fund's current investible universe of instruments trading at negative interest rates, however, we would note that the vast majority of the Fund's current holdings and investible universe at that time would likely still have a positive interest rate (as illustrated by experience offshore even at a reasonably negative OCR).

All that is some way off and for now we continue to focus on deploying the Fund into the optimal mix of instruments to deliver its return objective while maintaining liquidity and focusing on diversification and higher credit quality exposures.

Actual investment mix [1]

Effective Cash# 52.37%
New Zealand Fixed Interest 47.63%
Other* 0%

The actual cash held by the Fund is 52.37%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

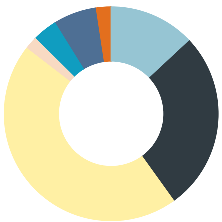
KiwiSaver Conservative Fund

Portfolio Manager: Paul Morris

The Fund posted a strong return of 1.5% in the month, further recovering from the weakness in March. It is now up 4.4% over 1-year. It benefitted from a strong month for both shares and bonds, specifically corporate bonds which is the predominant bond exposure.

Cognisant of a conservative risk profile and with elevated economic uncertainty, the Fund came into the month with a very cautious setting. However, on increasing confidence that the more pessimistic economic forecasts were less likely to be realised, we did add back some bond and share exposure. The increase in shares was focused in Australia where a better than expected fiscal position, and improving economic outlook coming out of lockdown, was supportive for many sectors which had lagged. The increase in bonds remained in better credit rated bonds which are closer to central bank support.

All that said, we reiterate the overall Fund setting remains defensive; more cash, fewer bonds (especially lower-rated bonds) and shares than the long run neutral. Irrespective of this still lower market exposure the Fund succeeded in keeping up with the broad market strength by identifying outperfoming bonds and shares. Looking forward, given the now more expensive market valuations and a broad range of economic scenarios the bar remains high to add any further to the Fund's risk settings. The focus will instead be on active management of the existing holdings to identify optimal bond and shareholdings.



Effective Cash# 13.06%
New Zealand Fixed Interest 27.03%
International Fixed Interest 45.37%
New Zealand Equities 1.96%
Australian Equities 3.73%
International Equities 6.45%
Listed Property 2.32%
Other* 0.08%

The actual cash held by the Fund is 5.89%. 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

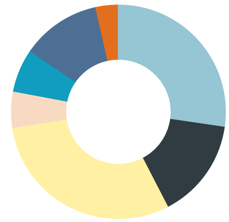
Portfolio Manager: Mark Riggall

The rebound in risky assets continued in May with strong performances from both shares and corporate bonds. This helped the Fund deliver a 2.1% return in the month. The Fund has remained on a defensive footing during May, but some key changes helped performance in a month where it was important to be in the right assets.

On the bond side, the Fund increased its exposure to global corporate bonds. The increase in bonds remained in better credit rated bonds which are closer to central bank support but still offer attractive returns compared to government bonds. On the equity side, higher conviction in the recovery of the Australian economy and better relative value meant the Fund could increase its exposure to Australian shares. In turn, some exposure to global shares was reduced after a strong run.

Looking ahead, we believe share markets are too optimistic on the outlook and valuations are becoming stretched in the face of a wide range of economic outcomes. Increasing geopolitical risks and chance of a second wave of the virus mean the Fund retains its cautious stance with a reduced exposure to shares in general and a focus on investing in higher quality corporate bonds.

Actual investment mix [1]



The actual cash held by the Fund is 18.63%. 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

The rebound in risky assets continued in May with strong performances from both shares and corporate bonds. This helped the Fund deliver a 3.3% return in the month, taking the 1-year return to 6.5%. The Fund has remained on a defensive footing during May, but some key changes helped performance in a month where it was important to be in the right assets.

On the income side, the Fund increased its exposure to global corporate bonds. These are supported by monetary authorities and still offer a return that looks attractive compared to government bonds. The Global Corporate Bond Fund delivered a 1.1% return in the month. On the equity side, higher conviction in the recovery of the Australian economy and better relative value meant the Fund could increase its exposure to Australian shares, both large and small cap. Australian shares performed well in the month with the Dynamic Fund delivering a 10% return. The Global Equity Fund has been performing well lately so the increase in Australian shares was offset by a reduction in global shares late in the month to lock in some of those gains. The Fund also reduced foreign currency exposure, aiding performance as the NZ dollar appreciated.

Looking ahead, we believe share markets are too optimistic on the outlook and valuations are becoming stretched. Increasing geopolitical risks and chance of a second wave of the virus mean the Fund retains its cautious stance with a reduced exposure to shares in general.

The actual cash held by the Fund is 9.52%. 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 0.23% *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 31 May 2020

KiwiSaver Active Growth Fund

Portfolio Manager: Jonathan Windust

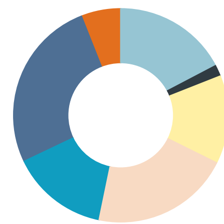
The Fund rose 3.8% in May and benefitted from the continued recovery in share and fixed interest markets. The NZ, Australian and global share markets ending up 3.3%, 4.4% and 4.7% respectively. Share markets reacted positively to the potential for economies to reopen and benefitted from investors looking to put cash to work. We were pleased with the Fund's performance which was generally in line with share markets despite retaining a relatively defensive positioning with high levels of cash. Performance was aided by good company selection and a rebound in credit markets.

Key positives during the month included Australian gold companies, Northern Star (+15.7%) and Evolution Mining (+19.4%) which benefitted from the rise in the gold price. Gold is seen as a beneficiary of the large amount of liquidity being added by central banks which may devalue traditional monetary investments. The Fund's US home improvement store investments Lowe's (+24.4%) and Home Depot (+13.0%) also rose strongly. These stores reported very strong sales and have been a beneficiary of stay at home policies. The stores were deemed essential services and allowed to remain open during lock down and have benefitted from strong demand as consumers look to spend on their homes and gardens.

The Fund was active during the month and generally added to share investments as we became more comfortable that the virus was under control in NZ and Australia. In Australia we added to our holdings in insurance company IAG and supermarket company Woolworths. We believe that both of these companies have good management and strong competitive positions that will enable them to deliver solid returns through a combination of dividends and earnings growth. In NZ we added building company Fletcher Building. Whilst we believe Fletcher Building may remain under pressure in the short term we believe that this was fully reflected in its share price. We remain cautious on global markets where valuations have increased despite still high virus numbers.

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 benefitting. On balance the Fund remains cautious given the uncertain environment and recent rise in share market valuations. The Fund has a lower than average allocation to shares of around 70%, however, we remain excited that this market will provide great opportunities for active management gains.

Actual investment mix [1]



- Effective Cash# 17.29%
- New Zealand Fixed Interest 1.70%
- International Fixed Interest 13.36%
- New Zealand Equities‡ 20.88%
- Australian Equities 14.67%
- International Equities 26.12%
- Listed Property 5.98%
- Other* 0%

The actual cash held by the Fund is 6.12%. 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 6.4% in May, as share markets globally continued their upward climb. A gradual easing of lockdown measures in several countries and signs of economic recovery were the main catalysts, but there is a long road ahead.

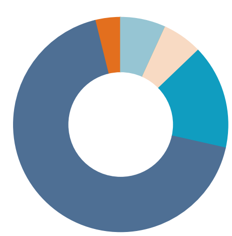
As in April, our technology holdings were the star performers in May. The key positive contributor was US payments company PayPal that backed up its 28% gain in April, surging another 26% in May. A quite staggering performance given this is a large company with a market capitalisation of around NZ$290 billion. As I mentioned last month, Covid-19 is accelerating the shift to electronic payments and e-commerce and away from brick-and-mortar retailing and PayPal is a key beneficiary.

Another strong contributor was Japanese business software company Freee (+39.3%) that has a very similar business model to our local champion Xero. Freee primarily offers cloud-based accounting and human resourcing software for small businesses but is now expanding their target market to include medium-sized businesses.

Detractors from performance included emerging market blue chip Taiwan Semiconductor Manufacturing Company (TSMC, -5.3%). This leading global contract manufacturer of high-end computer chips is being impacted by US-China trade tensions. During the month, the US outlined stricter export restrictions on Chinese chip companies, some of which are customers to TSMC.

Closer to home, key positive contributors in Australasia included gold companies, Evolution Mining (+19.4%) and Saracen Mineral Holdings (+17.7%). The biggest detractor during May was CSL (-10.7%) on profit taking.

Despite the strong rebound, the outlook remains uncertain and 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.



- Effective Cash# 6.85%
- New Zealand Equities 5.99%
- Australian Equities 15.68%
- International Equities 67.61%
- Listed Property 3.75%
- Other* 0.12%

The actual cash held by the Fund is 7.68%. 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 1.51% *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 31 May 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	0.02%	—	—	—	—	1.0007	15.9 M
KiwiSaver Conservative Fund	1.46%	4.42%	5.16%	5.48%	8.56%	1.8477	186.9 M
KiwiSaver Moderate Fund	2.13%	—	—	—	—	1.0598	9.9 M
KiwiSaver Balanced Fund	3.28%	6.52%	7.17%	7.32%	9.67%	2.4602	400.0 M
KiwiSaver Active Growth Fund	3.75%	5.19%	8.88%	8.80%	11.98%	3.9130	1,564.3 M
KiwiSaver Aggressive Fund	6.39%	—	—	—	—	1.0691	108.2 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)	3.33%	8.40%	14.75%	14.50%	14.72%
S&P/ASX 200 Accumulation Index (AUD)	4.36%	-6.70%	4.35%	4.27%	6.73%
S&P/ASX 200 Accumulation Index (NZD)	5.35%	-5.92%	5.11%	4.18%	4.99%
MSCI World Index (local currency)*	4.72%	6.86%	6.09%	6.03%	8.56%
MSCI World Index (NZD)*	4.44%	12.42%	10.84%	8.82%	11.55%
S&P/NZX 90-Day Bank Bill Rate	0.03%	1.33%	1.76%	2.10%	2.42%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	0.28%	7.02%	4.87%	4.08%	4.05%
S&P/NZX NZ Government Bond Index	0.18%	7.38%	6.00%	5.54%	5.01%

*With net dividends reinvested

Milford 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 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 6.85%	Bank Of China 2.4% 2020 1.83%	Spark New Zealand 0.96%
Housing NZ 0% 2020 4.32%	NZLGFA 1.5% 2029 1.49%	Bank Of China 2.4% 2020 0.88%
NZ Government 0% 2020 2.74%	Housing NZ 3.36% 2025 1.31%	NZLGFA 1.5% 2029 0.78%
NZ Government 0% 2020 2.40%	Westpac 2.22% 2024 1.15%	a2 Milk Company 0.77%
Kiwibank 1.05% 2020 2.13%	John Deere 1.75% 2024 1.15%	Transurban Group 0.70%
Westpac 32 Day CMD 2020 2.10%	ASB Bank 1.83% 2024 1.14%	Housing NZ 3.36% 2025 0.69%
ANZ 1.44% 2020 2.06%	ANZ Bank 3.03% 2024 1.03%	NZLGFA 1.5% 2026 0.69%
Westpac 1.3% 2020 2.06%	NZLGFA 1.5% 2026 0.98%	Contact Energy 0.69%
NZ Treasury CD 2020 2.06%	ANZ Bank Float 2024 0.94%	Alphabet 0.66%
SBS Bank CD 2020 2.06%	ING Group 1.45% 2024 0.91%	ASB Bank 1.83% 2024 0.66%

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 1.63%	a2 Milk Company 3.81%	Microsoft Corp 3.27%
a2 Milk Company 1.59%	Spark New Zealand 3.33%	Amazon 3.11%
Fisher & Paykel Healthcare 1.31%	Fisher & Paykel Healthcare 3.23%	Alphabet 3.06%
Microsoft Corp 1.27%	Contact Energy 2.58%	Visa 2.27%
Alphabet 1.26%	Commonwealth of Australia 5.5% 2023 2.17%	Apple 2.10%
Contact Energy 1.18%	Microsoft Corp 1.69%	Mastercard 2.06%
Amazon 1.15%	Summerset Group Holdings 1.68%	ANSYS 1.93%
Transurban Group 1.01%	Alphabet 1.60%	Alibaba Group 1.82%
Apple 0.95%	Charter Hall Retail 1.36%	Martin Marietta 1.77%
Woolworths 0.91%	Visa 1.33%	Paypal Holdings 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 $11.1 million invested in the Milford KiwiSaver Plan as at the end of May 2020.

Frances Sweetman
Senior Analyst

Investment Highlight - Sky TV

In the relentless pursuit of superior returns it can be easy to forget the primary role of equity markets, which is to provide capital to businesses that need it. We have been served a heavy reminder in the past two months, which has seen over $2bn sought by New Zealand listed companies as a direct result of the Covid-19 outbreak.

Equity raisings can provide excellent opportunities to deliver strong returns. Companies generally need capital when risk is highest, for example in a downturn, or for new and unproven growth opportunities. To reflect this risk, and to ensure the capital can be successfully raised, new shares are often issued at healthy discounts. For those able to assess and price the risk, rewards can be handsome. This is illustrated in the table below, which outlines the capital raised by New Zealand companies since the Covid-19 outbreak.

Company	Date of raise	Amount Required	Share price 29th Feb 20	Issue price*	Share price 31st May 20**
Kathmandu	1st April 20	$207m	$2.13	$0.50	$1.04
Auckland Airport	6th April 20	$1,200m	$7.87	$4.66	$6.50
Vista Group	16th April 20	$65m	$3.01	$1.05	$1.50
Investore Property	29th April 20	$100m	$1.76	$1.65	$1.73
Z Energy	11th May 20	$350m	$4.06	$2.90	$2.82
Sky TV	21st May 20	$157m	$0.29	$0.12	$0.15

*Placement price. **Lower share prices post capital raise partially reflect the higher number of shares on issue
Source: Iress, company data

Our Funds participated in all these raises on behalf of their investors to varying extents depending on the investment team's assessment of the risk and reward on offer. In some cases, the risk / reward was clear. For example, Kathmandu: we have good visibility of their product, brand and markets, an outlook that we could forecast and a management team we rate highly. The offer price was well below our assessment of value. In other cases the risk / reward was less clear, for example, Sky TV.

Sky TV has been losing subscribers to new streaming alternatives for a number of years. While at first glance the Covid-19 outbreak could appear positive for the business, as we were forced to stay at home, the cancellation of live sport has led to a loss of sports subscriptions, advertising revenue and sales to pubs and clubs. The outlook remains unclear. While Sky TV's own streaming service can compete with global players like Netflix and Disney+, it is significantly cheaper than the Sky satellite service and so not a profitable substitute when the cost of premium content continues to rise. It is yet to be seen how much revenue lost through the suspension of live sport returns as sport gradually resumes.

However, we are of the view that there can be role for an aggregator of local and international content if it is done well. The new CEO Martin Stewart has a strategy to provide content to every household in New Zealand, however they may want to consume it, at a variety of different price points. This has enough merit to warrant the provision of capital required for the business to survive. As illustrated in the table above, this has also provided a 25% return for our investors (at the share price when writing), an attractive return for the risk, in our view.

Don’t miss out on your $521 KiwiSaver government contribution

Murray Harris
Head of KiwiSaver

Will you be getting a $521.43 bonus added to your KiwiSaver account in July? That’s how much you could get if you’re eligible[1] for the annual Government Contribution.

The government will contribute 50 cents for every dollar, on the first $1,042.86 that you contribute to your account each year to 30 June. If you have contributed less, you still get 50 cents for every dollar you have put in.

If you can, why not ensure you get the full $521.43 of ‘free money’ from the government. Over your KiwiSaver lifetime this could add up to thousands or even tens of thousands of dollars extra in your account by age 65.

If you are unsure if you have contributed enough, you can check in our Client Portal or mobile app – simply click the ‘Will you receive your $521?’ link next to your KiwiSaver balance. It is a good guide to let you know if you are likely to need to ‘top-up’, and if so by how much. You can then easily make a ‘top-up’ payment to your account from there. You can also check your personal contributions at ‘MyIR login’ at www.ird.govt.nz/kiwisaver.

Are you on track for your retirement?

You will have recently received your Annual KiwiSaver Member Statement for the Milford KiwiSaver Plan. It pays to check this closely to help see if you are on track for the retirement you dream of. This year for the first time we have included an estimate of what your balance could look like at age 65 and what this would provide as a weekly income in retirement. KiwiSaver will be an important part of retirement income for most New Zealanders, topping up the NZ Superannuation payment from age 65.

NZ Super is currently $424 per week[2] for a single person living alone. Massey University[3] produces an annual study of what it costs to live in retirement and that shows for a single person living in a metropolitan area living costs are between $602 and $1,190 per week. For many people that gap will be funded by their KiwiSaver account, so it’s important you are contributing enough and in the right fund. If you are not sure you can use our KiwiSaver Retirement Calculator to check if you are on track. It might be well worth your time.

1. To be eligible, you must be 18 years or older, not yet eligible for retirement withdrawals, and be mainly living in New Zealand. If you only meet these requirements for part of the year, or joined KiwiSaver part way through the year, you will receive a pro-rated amount of the Government Contribution.
2. Source: https://sorted.org.nz/guides/retirement/this-years-nz-super-rates/
3. Report available here : https://www.massey.ac.nz/shadomx/apps/fms/fmsdownload.cfm?file_uuid=18330758-8D36-4EF6-A79B-92C86889BFAB