Milford KiwiSaver Plan
Monthly Review November 2020

Market and Economic Review

Global share markets experienced a bumpy ride in October with divergent fortunes across the regions. Fund returns were broadly positive, helped by our conviction in investing into the local Australian and NZ share markets.

The sustainability of the recent bounce in global growth is being called into question. Fading demand for goods, increased social distancing measures in Europe, persistent global unemployment and diminishing fiscal support from governments are all weighing on the growth outlook.

Australia and NZ look to be in better shape for short-term growth compared to the rest of the developed world. While closed borders and high unemployment will undoubtably curtail growth, virus-free populations are free to spend domestically, buoyed by the wealth effect of surging housing markets.

Divergent economic fortunes are starting to be reflected in performance of regional share markets, as illustrated last month. Europe (Stoxx 600 index) plunged 5.1% in the month as social distancing restrictions were announced. US shares (S&P500 index) were down 2.7% whilst Australian (ASX 200 index) and NZ (NZX 50 index) shares were up 1.9% and 2.9% respectively (all local currency returns).

Our diversified Funds have been increasingly favouring domestic markets for the last month or so and this is reflected in performance for October.

On the stock side, Fisher & Paykel Healthcare's products are at the forefront of treatment for COVID-19 and the resurgence of the virus in Europe and US gives us greater conviction around demand for the company's respirators. We continue to hold significant positions in the stock and have added to those over the past month.

Looking ahead, the outlook is clouded by the impending US election. Although economic momentum is waning, further support from governments could be forthcoming and the outcome of the election is key in determining the size, shape and timing of this fiscal support. Additionally, we await news of progress on a vaccine which should inform us on the medium-term outlook for economic recovery.

Although uncertainty is still very high, we remain convinced that companies with good cashflows and dividend yields will remain sought after in a low interest rate world and regardless of the economic outlook. Companies such as Spark and Contact Energy in NZ, and Woolworths in Australia remain high on our holdings lists.

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MILFORD
KIWISAVER PLAN

KiwiSaver Cash Fund

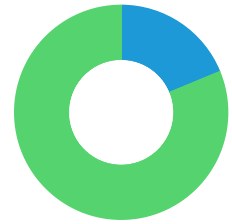
Portfolio Manager: Paul Morris

Short-dated NZ dollar bank bills, a reflection of interbank funding levels, were marginally lower over the month. What was more noticeable was a renewed fall in many major bank term deposit rates. We believe this is due to a combination of current elevated bank liquidity but also in expectation of the likely introduction of the Reserve Bank of New Zealand's (RBNZ) funding for lending programme (FLP). The details of the latter are likely to be released in November but their objective is clearly to pull retail interest rates lower, even in advance of any Official Cash Rate (OCR) cut.

Looking ahead, we reiterate that the likely trajectory of short-dated NZ dollar interest rates remains lower with recent RBNZ communications continuing to indicate a preference to deliver a negative OCR next year. We have outlined an expectation that under a negative OCR the Fund may still be able to deliver a positive return. This remains dependent on many factors, not limited to (i) the extent the OCR could go negative and (ii) the impact the developing RBNZ policy actions have on the yields available from the Fund's investible universe.

For now however, recent developments have not changed the portfolio management of the Fund which remains focused on maintaining a low-risk strategy, built on a diversified portfolio of cash, short-dated debt securities and term deposits, to protect capital. We believe this still remains an attractive, tax efficient (as a PIE vehicle), liquid (meaning investors have access to funds on request unlike term deposits) and low-risk alternative to bank term deposits.

Actual investment mix [1]



The actual cash held by the Fund is 18.77%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

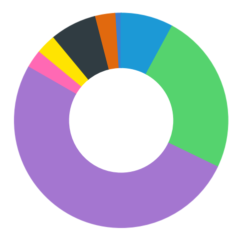
KiwiSaver Conservative Fund

Portfolio Manager: Paul Morris

The Fund returned a reasonable 0.7% in the month. Australasian shares generally posted positive returns, with notably strong performance from NZ property and utility exposures. After a strong start to the month global shares ended the month down as rising uncertainty (US election, lack of US fiscal package, resurgence of the virus) weighed on demand.

Global bonds did however contribute positively, and the Fund benefitted from its greater weight in corporate bonds, which outperformed government bonds. Australasian bonds also delivered a reasonable return supported by the expectation of yet further monetary policy stimulus. Recognising the increasing uncertainty the Fund continued with its slightly cautious positioning, notably holding slightly less shares (specifically global shares) than its long run neutral. In lieu of this, the Fund has been happy to hold more (i) lower rated corporate bonds, which we think offer a better risk-adjusted return given monetary and fiscal policy support and (ii) subordinated bonds (lower ranking in a liquidation) of companies with strong balance sheets.

Looking ahead, a global resurgence of the virus is a clear risk but over the medium term we remain optimistic that a combination of vaccine developments and further government and central bank stimulus will ultimately underpin the economic recovery and support both bond and share market returns.



The actual cash held by the Fund is 4.41%. 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

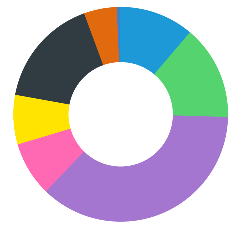
Portfolio Manager: Mark Riggall

The Fund returned 0.4% in October. Australasian shares generally posted positive returns, with notably strong performance from NZ property and utility exposures. Global share markets ended the month lower as investors focus on resurgence of the virus and uncertainty surrounding the US election.

The Fund's global bonds delivered positive performance in October and the Fund benefitted from the primary exposure to corporate bonds which outperformed government bonds. We are focused on investing the Fund in safer, dividend yielding shares, allowing an increased exposure to shares overall, despite the ongoing uncertainty.

Although global economic growth is slowing, policy makers have turned more supportive, with new European restrictions coming hand in hand with fiscal support. Central banks too continue to provide support, notably the Reserve Bank of Australia that is about to embark on their own quantitative easing program. Once the noise of the US election is out of the way, we look to progress updates from vaccine makers to give us more confidence in the medium-term outlook.

Actual investment mix [1]



- Effective Cash# 11.25%
- New Zealand Fixed Interest 14.24%
- International Fixed Interest 36.69%
- New Zealand Equities^ 8.20%
- Australian Equities 7.45%
- International Equities 16.54%
- Listed Property 4.95%
- Other* 0.68%

The actual cash held by the Fund is 8.14%. 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 Fund returned 0.3% in October, bringing the 1-year return to 6.1%. October saw a divergence in performance from different regions around the world, partly driven by rising COVID-19 cases in Europe. The Balanced Fund has been increasing investments into both Australia and NZ whilst remaining cautious on global shares. This was rewarded in October as domestic and Australian shares outperformed the US and particularly Europe (where the Fund has minimal exposure). Stock selection also helped performance.

Fisher & Paykel Healthcare is the Fund's biggest holding at 2.4%, underlying Funds have been adding to the position recently and the stock was up over 7% in October as ongoing virus resurgence drives demand for its respirators. Contact Energy (the Fund's 3rd biggest holding) was up 11% owing to the improved outlook for the Tiwai smelter. Global investors have been focused on slowing economic growth, rising virus cases and risks around the US election. Policy makers have turned more supportive, with new European restrictions coming hand in hand with fiscal support. Central banks too continue to provide support, notably the Reserve Bank of Australia that is about to embark on their own quantitative easing program.

Once the noise of the US election is out of the way, we look to progress updates from vaccine makers to give us more confidence in the medium-term outlook. In the meantime, the Balanced Fund will retain a focus on safer, dividend yielding shares to enable a more fully invested position despite the ongoing uncertainty.

- Effective Cash# 7.91%
- New Zealand Fixed Interest 5.38%
- International Fixed Interest 24.46%
- New Zealand Equities† 14.22%
- Australian Equities 12.56%
- International Equities 27.88%
- Listed Property 7.13%
- Other* 0.46%

The actual cash held by the Fund is 5.11%. 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 0.12%. †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.

KiwiSaver Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund rose 0.5% in October with strong performance of New Zealand (+2.9%) and Australian (+2.0%) share markets and good company selection offsetting weak performance in global share market indices (-3.1%). Global markets came under pressure due to rising COVID-19 cases and uncertainty around the outcome for the US election.

Key positive company investments during the month were Kiwi Income Property (+16.0%), Summerset (+15.7%), Virgin Money (+26.6%) and Alphabet (+10.3%). Kiwi Income benefitted from increased confidence in the New Zealand economy and Summerset from the strong housing market. Virgin Money is a UK bank and benefitted from strong results from its peers that showed improving credit conditions and margins. We believe Virgin, despite facing short-term challenges, is very attractively valued. The Fund also holds investments in the company's subordinated fixed income which offer attractive yields for the risk. Given rising uncertainty and good gains, the Fund reduced investments in global shares and increased investment in New Zealand shares. In particular the Fund added to our holdings in Fisher & Paykel Healthcare. Fisher & Paykel has become the clinical standard for treating COVID-19 in hospitals and should benefit from sharply rising case numbers globally.

The short-term outlook for shares remains uncertain with rising virus cases, potentially reduced government support, elections, BREXIT and high valuations. The main positives remain very strong stimulus measures and very low interest rates which attract investors to shares to generate a return. A vaccine would be a positive for economies although some companies that have benefitted from the virus and 'working from home' may see headwinds. On balance we expect shares to outperform over the medium-term but remain volatile given the high level of uncertainty. The strategy of the Fund is to remain active and invest in a combination of reasonably priced growth companies and companies which offer value and attractive yields.

Actual investment mix [1]

- Effective Cash# 8.63%
- New Zealand Fixed Interest 1.01%
- International Fixed Interest 13.13%
- New Zealand Equities‡ 24.47%
- Australian Equities 13.29%
- International Equities 31.85%
- Listed Property 7.37%
- Other* 0.25%

The actual cash held by the Fund is 3.28%. 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

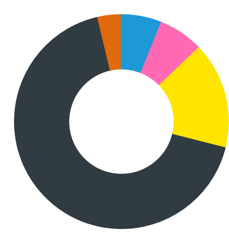
The Fund fell 0.9% in October and is up 15.0% over the last year. October was a weak month for global share markets, due to a resurgence in COVID-19 cases in the Northern Hemisphere, lack of additional fiscal stimulus in the US, and uncertainty surrounding the US election.

Key positive contributors included Indian private bank HDFC Bank (+15.0%), which rose after delivering strong second quarter earnings despite the weak economic backdrop in India, reflecting the quality of its management team. US aggregates company Martin Marietta (+13.2%) continued its strong recent run on hopes that a Democratic presidency with Congress control in the US election would likely lead to a large infrastructure package. Alphabet (+10.3%), the parent company of Google, outperformed its US technology peers, after posting strong third quarter earnings due to a rebound in digital advertising at its core search business and YouTube.

Detractors from performance included Mastercard (-14.5%) after earnings for the third quarter disappointed. Mastercard's higher margin cross-border card transactions remained depressed as a result of the pandemic and border closures leading to less holiday and business travel. A successful vaccine would be a positive catalyst for cross-border activity to recover. US homebuilder DR Horton (-11.7%) fell on profit taking after more than doubling since its low in March. US housing fundamentals remain supportive with strong demand and historically low mortgage rates, but demand could be impacted in the short term by the surge in COVID-19 cases.

Positive contributors in Australasia included financial services platform HUB24 (+24.2%) and auto parts retailer Bapcor (+12.8%). In New Zealand, Fisher & Paykel Healthcare (+5.2%) and Mainfreight (+17.2%) rebounded from September weakness. In terms of local detractors, iron ore producer BHP (-5.1%) and Australian Finance Group (-5.6%) both fell in October.

We expect volatility to stay high in the short term given the uncertainty surrounding the US election and the success of Phase 3 vaccine trials for COVID-19. 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# 6.11%
- New Zealand Equities 6.77%
- Australian Equities 16.08%
- International Equities 67.31%
- Listed Property 3.73%
- Other* 0%

The actual cash held by the Fund is 8.52%. 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 1.70% *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 Cash Fund	0.03%	–	–	–	–	1.0022	21.6 M
KiwiSaver Conservative Fund	0.66%	4.52%	5.51%	6.24%	8.62%	1.9205	187.5 M
KiwiSaver Moderate Fund	0.38%	–	–	–	–	1.1052	25.1 M
KiwiSaver Balanced Fund	0.28%	6.07%	7.57%	8.46%	9.88%	2.6078	468.4 M
KiwiSaver Active Growth Fund^	0.52%	6.40%	9.06%	9.96%	12.25%	4.2261	1,783.0 M
KiwiSaver Aggressive Fund	-0.90%	15.04%	–	–	13.05%	1.1642	214.7 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, 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)	2.87%	12.74%	15.06%	16.26%	15.00%
S&P/ASX 200 Accumulation Index (AUD)	1.93%	-8.15%	4.09%	6.80%	5.63%
S&P/ASX 200 Accumulation Index (NZD)	-0.08%	-9.12%	2.32%	6.97%	4.52%
MSCI World Index (local currency)*	-3.05%	3.30%	5.85%	7.99%	8.27%
MSCI World Index (NZD)*	-3.05%	1.27%	7.24%	8.64%	10.78%
S&P/NZX 90-Day Bank Bill Rate	0.03%	0.80%	1.52%	1.86%	2.28%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	0.01%	4.32%	4.98%	4.26%	4.19%
S&P/NZX NZ Government Bond Index	-0.23%	6.32%	6.36%	5.25%	5.71%

*With net dividends reinvested

Milford KiwiSaver plan is the proud winner of multiple awards:

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

KiwiSaver Cash Fund	KiwiSaver Conservative Fund	KiwiSaver Moderate Fund
Westpac 32 Day CMD 2020 9.30%	Scentre Group 5.125% 2080 1.35%	Spark New Zealand 1.28%
Kiwibank 0.6% 2021 7.62%	NZLGFA 1.5% 2029 1.21%	Fisher & Paykel Healthcare 1.25%
ANZ 1.21% 2020 5.39%	Housing NZ 3.36% 2025 1.17%	Scentre Group 5.125% 2080 1.19%
Housing NZ 0% 2020 5.05%	NZLGFA 3.5% 2033 1.12%	Contact Energy 1.03%
ANZ 1.15% 2020 4.01%	Westpac 2.22% 2024 1.09%	UBS Float 2025 0.84%
Contact CD 2020 4.01%	UBS Float 2025 1.07%	Woolworths 0.78%
NZLGFA 0% 2021 4.01%	IBRD 0.625% 2027 1.02%	AusNet Float 2080 0.74%
Genesis Energy 0% 2021 4.01%	AusNet Float 2080 0.96%	Transurban Group 0.72%
Port of Tauranga CD 2020 4.01%	Transpower 1.735% 2025 0.95%	NZLGFA 1.5% 2026 0.71%
ANZ 1.2% 2020 3.21%	ASB Bank 1.83% 2024 0.93%	NZLGFA 1.5% 2029 0.69%

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
Fisher & Paykel Healthcare 2.43%	Fisher & Paykel Healthcare 5.27%	Amazon 2.89%
Spark New Zealand 2.02%	Spark New Zealand 4.02%	Microsoft Corp 2.55%
Contact Energy 1.49%	Summerset Group Holdings 2.90%	Alphabet 2.43%
Woolworths 1.13%	a2 Milk Company 2.09%	Thermo Fisher Scientific 2.22%
Scentre Group 5.125% 2080 1.10%	Dr Horton 1.94%	HDFC Bank 1.86%
Amazon 1.09%	Contact Energy 1.84%	Zoetis 1.83%
a2 Milk Company 1.09%	EBOS Group 1.83%	Martin Marietta 1.82%
Microsoft Corp 1.07%	Thermo Fisher Scientific 1.69%	Alibaba Group 1.79%
Alphabet 1.05%	Scentre Group 5.125% 2080 1.65%	Intercontinental Exchange 1.72%
Transurban Group 1.01%	Charter Hall Retail 1.62%	Transunion 1.67%

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 $12.7 million invested in the Milford KiwiSaver Plan as at the end of October 2020.

Alexander Whight
Portfolio Manager

Investment Highlight

One of the world's most important technology companies, that you've never heard of

Taiwan Semiconductor Manufacturing Company (TSMC) embodies many of things we look for at Milford. #1 in a growing market, an (increasingly) wide competitive moat, solid financials, an enviable culture, a fortress balance sheet. The shares have delivered, gaining >70% the past 12 months and the 27% p.a. 10-year return reflects the growth and dominance TSMC enjoys.

Computing power has changed our lives. We take for granted a phone that fits in our pocket yet can conduct video calls with someone across the world. A phone that helps us navigate untravelled paths to a destination determined by the reviews we've accessed on that same device. A phone that enlightens our commute with on-demand delivery of binge-worthy TV, music and cutting-edge gaming. It's a far cry from the traditional telephone. Technology-driven change will not abate with the onset of cloud computing, AI and electric and semiautonomous vehicles, to name a few.

This progress is heavily dependent upon semiconductor development, and more specifically TSMC. Designing ever faster, smaller, more energy-efficient chips that can be mass-produced reliably requires challenging improvements in production processes leveraging know-how built-up over decades. It is also one of the most capital-intensive industries globally (some tools sell for >US$100m each). Advancing chip production has claimed many casualties and is largely outsourced by "fabless" chip design companies to a handful of "foundries".

Enter TSMC, with US$3bn annual R&D and a best-in-class manufacturing track record. TSMC pioneered the foundry business model in 1987 and has been global #1 ever since. In 2019, TSMC produced 10,761 different products using 272 different process technologies to serve hundreds of customers. It has a 56% market share, over 3 times larger than Samsung, arguably TSMC's only competitor still in the development race. Its share of advanced chips (60% of their third quarter 2020 sales) is even higher.

We believe the long-term outlook for semiconductor demand is favourable. TSMC should grow sales >30% in 2020 and its technology leadership positions it to outpace an estimated 5%+ p.a. industry growth in the future. Recent indications Intel may outsource are a further positive, potentially adding US$20bn to Foundry industry revenues over time.

Of course, the economics of the investment must be considered alongside the economics of the business. Valuation wise, TSMC trades on 25 times its future earnings, much higher than the three-year average of 18 times. This may be fair but leaves vulnerability to earnings disappointment. We remain actively vigilant.

Introducing Milford KiwiSaver Digital Advice

Murray Harris
Head of KiwiSaver & Distribution

We are excited to announce **Milford KiwiSaver Digital Advice** is now available.

Whether your KiwiSaver goal is to buy your first home, or to retire happily, this easy to use online tool will help you achieve your goal by providing personalised financial advice.

Recent research by the Financial Services Council called *Money and You** found that New Zealanders who receive financial advice save more, invest more, travel more and overall have improved wellbeing. It also found that New Zealanders who take financial advice, on average, have KiwiSaver balances over 50% larger than those who do not.

Our tool is designed to guide you through your current circumstances, including your employee and employer contributions, investment timeframe and attitude to risk. Milford KiwiSaver Digital Advice will then provide you with a recommendation on the Milford KiwiSaver Fund that is best suited to you and whether your current contributions are sufficient to meet your goal.

Digital Advice is an easy way to review your KiwiSaver regularly, or when your circumstances change to ensure your KiwiSaver investment is on track for retirement and whether the Milford KiwiSaver Fund you are invested in remains suitable for you.

We are also pleased to the announce the launch of **Forecast my Balance**. This tool will provide you with an estimate of your KiwiSaver balance at age 65, including how much you could spend in retirement. Using your own salary and contributions we've developed this tool to provide a personalised forecast.

To get started with either of these tools and see if you are on track to achieve the financial future you dream of, simply log into your Milford Portal, on a desktop computer or tablet (mobile phone version coming soon), and give it a go. You'll find it by clicking on 'Tools & Calculators' in the left sidebar menu.

*https://www.fsc.org.nz/site/fsc1/Money%20and%20You%20-%20Research%20-%20Financial%20Services%20Council%20-%20August%202020.pdf