Milford Investment Funds
Monthly Review January 2021

Market and Economic Review

A tumultuous 2020 concluded with stocks close to year highs in most countries. Bonds also performed well, particularly corporate bonds that more than recovered the losses seen in March. All in all, this has delivered strong fund performance despite the ongoing global pandemic.

December saw a continuation of the strength in shares, despite the building COVID-19 waves in Europe and the US. Optimism around vaccine rollouts, progress on further fiscal support in the US and a resolution of Brexit helped keep investors upbeat.

NZ shares finished the year with a rally, despite index heavyweight a2 Milk surprising the market with a profit downgrade. Whilst we still hold the stock, it had been reduced in our funds ahead of this news, limiting its impact on performance. The company remains on watch for signs that management have the situation back under control.

In Australia, strong commodity prices, particularly a surging iron ore price, have delivered strong gains for the materials sector. We had previously increased exposure to this sector and continue to like companies such as BHP Group and IGO Ltd.

We look ahead to 2021 with optimism that distribution of vaccines can turn the tide on the waves of infections spreading around much of the globe. Success on this front will see global growth recover sharply, in turn improving the outlook for company profits. Governments and central banks are likely to remain supportive, at least until unemployment rates have fallen. This is a constructive investment backdrop and we are fully invested as a result.

The biggest debates we have in the investment team centre on which type of companies are going to perform over the coming year. Will we see continued strength in the high-flying technology sector? Will banks benefit from bottoming long-term market interest rates and recovering economies? Will travel and leisure companies be able to rebuild their businesses and recover accordingly? The answer to questions such as these may well hold the key to performance for the coming year.

Milford Asset Management
Level 28, 48 Shortland Street, Auckland, 1010
Phone: 0800 662 345
Email: Info@milfordasset.com
milfordasset.com

MILFORD
INVESTMENT FUNDS

Conservative Fund

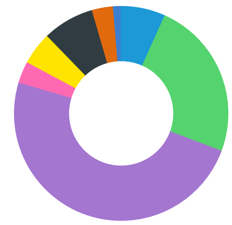
Portfolio Manager: Paul Morris

The Fund returned 0.9% in December. Irrespective of the global COVID-19 case surge, market risk appetite was underpinned by expectations for the vaccine roll-out and further government spending. This drove strong contributions from the Fund's global and Australasian shares, with notable performance from NZ electricity 'gentailers'. It was however a headwind for key government bond markets which were weaker.

The impact was partially offset by the Fund's predominate bond exposure being to corporates, which continued to recover from the initial stages of the COVID crisis. The Fund's global corporate bonds delivered a moderate return, but its Australasian bonds were close to flat (these have more higher-rated bonds with generally closer performance to government bonds).

During the month we further increased the Fund's allocation to shares. While higher than in recent years at 19% it (i) remains consistent with the Fund's conservative risk profile and (ii) is predicated on a vaccine supported economic recovery and, considering prevailing valuations, ongoing low interest rates. Our base case expectation is for a moderate drift higher in longer-dated market interest rates next year but we are wary that a larger move would be a negative for shares. Such an outcome would also be a negative for bonds where yields are likely close to their medium-term lows. Therefore we will limit Fund interest rate exposure. Looking forward, the Fund's share exposure complemented by its corporate bond exposure should support moderate returns, but we reiterate these may be lower than in previous years.

Actual investment mix [1]



- Effective Cash# 6.74%
- New Zealand Fixed Interest 24.00%
- International Fixed Interest 48.82%
- New Zealand Equities 3.24%
- Australian Equities 4.93%
- International Equities 7.75%
- Listed Property 3.19%
- Other* 1.33%

The actual cash held by the Fund is 5.53%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Diversified Income Fund

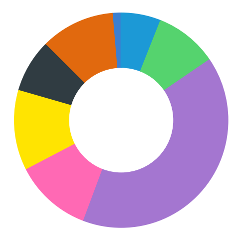
Portfolio Manager: David Lewis

The Fund rose by 2.0% in December to give a 5.0% return for the year. Across the Fund's key asset classes, returns this month were driven by shares (5% globally, but lower in Australasia), with good gains in high-yield bonds (around 2%), and modest returns in investment grade corporate bonds (0-0.5%).

Within the Fund's share portfolio, our holdings in NZ electricity companies were particularly strong - Contact rose 14.2%, Meridian 15.4%, and Mercury 8.8%. These companies are seeing growing support from international investors focusing on their clean energy credentials. Infratil was the Fund's best performer this month, up 22.7% following an Australian takeover bid. At the other end was a2 Milk, which fell 18.2% after downgrading forecast earnings. a2 is a small exposure at 0.4% of the Fund.

In fixed income, Fund activity was lower this month, partly due to the usual December slowdown in the new issue market. Changes included adding to Seagate, a US high-yield issuer in the technology sector, and reductions in selected higher-quality bonds in Australian dollars.

In terms of strategy, we remain optimistic about prospects for economic growth this year as both fiscal and monetary policy support, and vaccines, should allow a rebound in growth globally from the depressed level of 2020. Valuations across the holdings in the Fund have moved notably higher in the past two months, but are still generally fair. This suggests a reasonably positive outlook for returns over the year, especially in shares and consistent with the 43% exposure to shares in the Fund currently.



- Effective Cash# 6.04%
- New Zealand Fixed Interest 9.45%
- International Fixed Interest 40.21%
- New Zealand Equities 11.67%
- Australian Equities 12.08%
- International Equities 7.99%
- Listed Property 11.20%
- Other* 1.36%

The actual cash held by the Fund is 4.83%. 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.

Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 1.8% in December bringing the one-year return to 9.9%. December saw continued strength from all the share markets the Fund invests into. Despite the surges of COVID-19 in the US and Europe, investors remain optimistic about further fiscal support in the US, a swift rollout of vaccines and a final resolution of the Brexit saga.

NZ shares performed particularly well in the month, despite a profit warning from a2 Milk. Performance was helped by share gains in the NZ electricity sector, notably Contact and Meridian. These companies are increasingly attracting offshore investors focusing on the low carbon emissions from hydroelectric power stations. Commodity prices have recovered strongly in recent months with iron ore prices surging on the back of supply disruptions in South America. As a result, the Australian materials and resource shares performed well in December, rewarding increased exposure over the last few months. Bond investments had a solid month with notable performance from higher yielding company bonds.

The Fund remains positioned with a modest overweight to shares, particularly NZ and Australian companies. The medium-term outlook is one of improving economic growth (once vaccines have been deployed) married with continued policy support from central banks and governments. This is a favourable investment backdrop and will allow the underlying Funds to focus on company selection – a key consideration as the global recovery gathers steam.

Actual investment mix [1]

- Effective Cash# 6.68%
- New Zealand Fixed Interest 4.66%
- International Fixed Interest 21.63%
- New Zealand Equities† 14.61%
- Australian Equities 14.18%
- International Equities 30.15%
- Listed Property 6.83%
- Other* 1.26%

The actual cash held by the Fund is 7.03%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Active Growth Fund

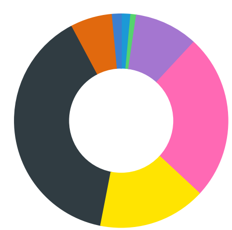
Portfolio Manager: Jonathan Windust

The Fund rose 2.0% in December, as share markets delivered strong gains benefitting from successful vaccine trials and enormous economic stimulus from governments and central banks.

Key positive companies during the month included NZ retirement operator Summerset (+18.4%), global video gaming companies Activision Blizzard (+16.8%), Electronic Arts (+12.6%) and Nintendo (+11.1%), and resources companies Rio Tinto (+12.3%) and BHP (+11.5%). Summerset rose after it provided profit guidance which exceeded analyst forecasts and given the strong NZ housing market. Video game companies rebounded on further lockdowns and the expectation of good holiday sales. Resource companies benefitted from strong commodity prices, particularly iron ore. Commodities are benefitting from strong demand as governments continue to support their economies. During the month, the Fund added to holdings in both the video game and resource companies, including Australian lithium miner IGO. Lithium is a key material used in the production of batteries used to power electric vehicles.

The outlook for share markets is supported by the expectation of an economic rebound in 2021, an improvement in company earnings (as COVID headwinds subside), and importantly, ultra-low interest rates from central banks around the world. Low interest rates continue to drive investors to shares. The key headwind for markets is relatively high market valuations and generally optimistic investor sentiment. On balance, we retain a positive outlook for shares over 2021 for which the Fund currently holds a higher-than-average allocation. We remain active to isolate those shares which we believe will provide strong risk-adjusted returns.

Please note this Fund is closed to new investors.



- Effective Cash# 1.46%
- New Zealand Fixed Interest 0.85%
- International Fixed Interest 9.59%
- New Zealand Equities‡ 25.03%
- Australian Equities 16.13%
- International Equities 39.15%
- Listed Property 6.29%
- Other* 1.50%

The actual cash held by the Fund is 4.03%. 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 0.19% ‡Includes unlisted equity holdings of 1.35% *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.

Australian Absolute Growth Fund

Portfolio Manager: William Curtayne & Wayne Gentle

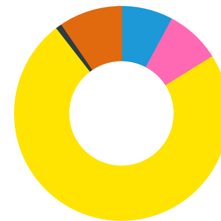
After returning 1.9% in December, the Fund finished the year with a 9.3% return compared to 2.0% by the ASX 200 (TR) Index (NZD-Hedged). The top contributors for the year were our gold miners (Evolution Mining and Saracen Mineral), and derivative hedges that paid off handsomely in the March sell-off. Our worst performing investments were real estate companies that suffered due to the COVID lockdowns and have yet to fully recover.

In December, the Fund had strong returns from our iron ore miners BHP (+11.5%), RIO (+12.3%) and Fortescue (+28.5%) as iron ore prices surged through US$160/t. We also invested in the Nuix IPO which rallied 55.4% in December.

Over the month we added mining business IGO following its acquisition of one the world's best lithium mines located in Western Australia. IGO also produces gold and nickel, but we see substantial upside from the lithium operations due to the increasing demand for electric vehicles which consequently drives battery and lithium demand.

We retain a positive view on the Australian equity market as the vaccine distribution allows the economic recovery to continue. While we will see setbacks from the COVID-19 wave in the Northern Hemisphere and spot outbreaks in Australia, these should prove temporary as the vaccine distribution eventually brings the virus under control. A global economic recovery is positive for many of our investments in the resources, financial and housing sectors.

Actual investment mix [1]



Effective Cash# 7.87%
International Equities 0.92%
New Zealand Equities 8.27%
Listed Property 9.58%
Australian Equities 73.36%
Other* 0%

The actual cash held by the Fund is 7.98%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

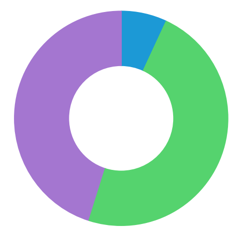
Trans-Tasman Bond Fund

Portfolio Manager: Paul Morris

Irrespective of a reasonable fall in Australasian government bond prices, the Fund managed to eke out a return of 0.2% in December thanks to a higher proportion of corporate bond holdings, which outperformed. Fund performance was better than its benchmark due to a larger exposure to tightening credit spreads (the yield differential between corporate and government bonds) and less interest rate exposure.

We remain constructive on Australasian corporate bonds due to the likely ongoing search by investors for income (noting further falls in term deposit rates). The Fund participated in new bonds from Kiwibank and Ryman Healthcare in NZ dollars, in addition to Australian dollar bonds from Macquarie Bank and Goodman Australia Industrial Partnership (Australian property). These purchases were funded from the sale of more expensive holdings, including taking profit on the Fund's Brisbane Airport bonds and some of its Scentre Group (Australian property) subordinated bonds which both performed strongly on Australian border reopenings and vaccine announcements.

Looking forward, the Fund retains an interest rate exposure below neutral as although shorter dated government bond yields are likely anchored by monetary policy, we remain wary longer dated yields may increase as economic conditions improve. We continue to believe corporate bond returns will outperform government bond returns, albeit as valuations become more expensive, we expect returns will continue to moderate.



Effective Cash# 6.95%
Other* 0%
New Zealand Fixed Interest 47.92%
International Fixed Interest 45.13%

The actual cash held by the Fund is 2.58%. 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.

Global Corporate Bond Fund

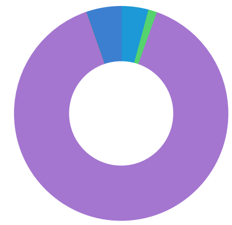
Portfolio Manager: Paul Morris

The Fund posted a return of 0.5% in December. Corporate bonds generally outperformed weakness across many key government bond markets as markets looked through the near-term global surge in COVID-19 cases to vaccine roll-outs and further fiscal stimulus, notably in the US. The Fund was positioned to benefit from this with less interest rate exposure but more exposure to tightening credit spreads (the yield differential between corporate and government bonds) than its benchmark.

Irrespective of this it still slightly underperformed its benchmark, in large part due to (i) a fall in Seagate bond prices (a data storage company) post a credit rating downgrade after the company raised debt for shareholder returns (we believe the bonds will recover) and (ii) less exposure to the weaker parts of the high-yield (HY) market. The latter had a stronger month than both higher rated HY sectors and subordinated bonds of investment grade corporates (including banks) where the Fund holds more exposure. We believe the latter exposures should outperform over time so these were retained.

Looking forward, the Fund retains a duration position shorter than benchmark to mitigate potential headwinds from our expectation for a drift higher in government bond yields. We believe current positioning should deliver moderate Fund returns, supported by investors' search for yield and an abundance of liquidity provided by central banks. We will closely monitor central banks for any change in their accommodative stance.

Actual investment mix [1]



Effective Cash# 4.19%
Other* 5.39%
New Zealand Fixed Interest 1.31%
International Fixed Interest 89.11%

The actual cash held by the Fund is 2.03%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

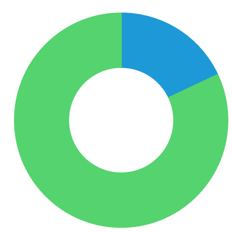
Cash Fund

Portfolio Manager: Paul Morris

The fall in short-dated NZ dollar interest rate markets paused in December. Markets still attach a small probability to another Reserve Bank of New Zealand (RBNZ) Official Cash Rate (OCR) cut but the chances appear remote for a negative OCR in 2021.

Our base expectation remains that better than expected local economic outcomes will mean the RBNZ holds the OCR unchanged through next year. If realised that should protect the Fund's absolute return, however, we would still expect the impact of the RBNZ Funding for Lending Programme (FLP) and the large cash balances still in the banking system to mean a lot of money will be chasing short-dated assets. This is likely to diminish the excess return over the OCR the Fund can generate over the near and medium term.

We would however reiterate that these 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.



Effective Cash# 17.99%
Other* 0%
New Zealand Fixed Interest 82.01%

The actual cash held by the Fund is 17.99%. 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.

Global Equity Fund

Portfolio Manager: Felix Fok

Global Equity rose 1.8% in December which was 0.8% behind the market index. The NZ dollar has climbed steadily against the US dollar since March last year, and the Fund's currency hedging has helped buffer against some of this headwind.

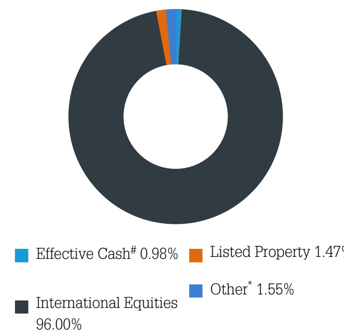
Key positive contributors included Apple (+11.5%) which attracted renewed interest on the launch of 5G iPhones, the prospect of an Apple Car, and its growing prowess in designing its own processing chips. For similar reasons to Apple, Taiwan Semiconductor Manufacturing Company (+12.9%) also traded strongly, underlining the importance and growing consumption of computing chips in the long-term trend of digitalisation.

Detractors from performance included Alibaba (-11.0%) for the second month in a row. The scrutiny over founder Jack Ma's businesses that started with regulation changes in November continued with the announced investigation by Chinese authorities into potential monopolistic behaviour. The Fund continues to reassess the risk-reward and reallocated a small amount away from Alibaba to other Chinese holdings in the Fund.

Elsewhere, credit ratings agency S&P Global (-6.6%) fell following the announcement of a $44bn acquisition of business intelligence company IHS Markit. Investors fear the company is overpaying for an asset that departs from its core benchmark and standards business. The Fund reduced its holding.

We are optimistic on the outlook given the positive vaccine developments, which despite facing a challenging rollout, provide light at the end of the tunnel. The portfolio remains focused on our key investment themes and dominant companies.

Actual investment mix [1]



The actual cash held by the Fund is 0.76%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

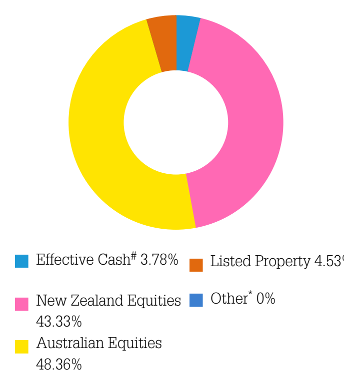
Trans-Tasman Equity Fund

Portfolio Manager: Sam Trethewey & Wayne Gentle

December was another very strong month for the Fund. The Fund returned 2.8% in December compared to a 2.6% return for the NZX 50 Index and 1.2% return for the ASX 200 Index. Over 2020, the NZX 50 returned 14.6% while the ASX 200 increased 2.0%. Both markets have rallied very significantly from the COVID-19 driven lows at the end of March.

Key contributors in December included Infratil (+22.7%) and Summerset (+18.4%) and hot Australian tech IPO Nuix (+55.4%). Infratil received an indicative takeover offer from Australian Super at $7.43 per share. We do not expect the offer to be successful in its current form however it does highlight the value within the Infratil portfolio. Summerset upgraded its guidance for the FY20 financial year on strong unit sales in recent months. Elsewhere, a2 Milk surprised the market with a profit downgrade. We still hold a2 Milk in the Fund, however it had been reduced from a large overweight position on evidence of pantry stocking by Chinese mothers in April. Since then a2 has had one of its three major distribution channels, the daigou channel, severely impacted by flow on effects from COVID-19 and increased competition. The company remains on watch for signs that management have the situation back under control. Elsewhere, cash was deployed into Mercury Energy, Afterpay and Fletcher Building. We reduced Chorus and IAG to reallocate the capital into more attractive opportunities.

It is clear that COVID-19 will continue to have an impact on company earnings in 2021. We expect companies in the eye of the COVID-19 storm, like Auckland Airport and Air New Zealand, to continue to trade on sentiment regarding our progress in fighting the virus. Irrespective of short-term market performance, long term returns will be heavily influenced by our stock selection. That is our ability to position the Fund in companies that can sustain earnings growth at above average rates (like Mainfreight, Xero and Fisher & Paykel Healthcare) and avoid where we see stretched balance sheets, earnings or valuation risk. It was very important to performance in 2020 and we expect it will be again in 2021.



The actual cash held by the Fund is 5.29%. 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.

Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins

After a volatile 12 months, 2020 was a strong year for the Dynamic Fund delivering a 18.7% return against the Small Ordinaries benchmark return of 10.3%. The Fund rallied by 3.5% in December outperforming the benchmark by 0.7%.

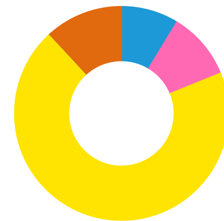
Performance was led by diversified miner IGO, which rose 37.4% following the acquisition of the world's largest and lowest cost hard rock lithium mine in the world. Lithium is a critical component in battery storage. The take up of electric vehicles is the key demand driver and there is growing evidence that this is once again accelerating in China and Europe.

Digital forensics software platform NUIX was another key contributor after rallying 55.4% from IPO. Their key clients are impressive and include Amazon, the US Department of Justice, and the SEC.

Laggards included IDP Education (-18.9%) and Fisher & Paykel Healthcare (-7.6%) – we retain a positive view on both companies.

While our recent performance has been strong, the market remains volatile. We remain cognisant that we are in a period of elevated uncertainty with a broad range of potential market moving scenarios in play. Our decision over the past 3 months to favour recovery stocks has worked well. As a potential vaccine reduces the tail risk of a severe economic outcome, we remain cautiously optimistic into 2021.

Actual investment mix [1]



The actual cash held by the Fund is 8.75%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Upcoming Distributions	Target	Payment Date
Conservative Fund	0.5 cents (Quarterly)	21/01/2021
Diversified Income Fund	1.1 cents (Quarterly)	18/02/2021
Trans-Tasman Bond Fund	0.45 cents (Quarterly)	18/03/2021
Global Corporate Bond Fund	0.45 cents (Quarterly)	18/03/2021
Trans-Tasman Equity Fund	1.5 cents (Biannually)	18/03/2021

*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 $
Multi-Asset Funds							
Conservative Fund*	0.88%	6.27%	6.04%	6.75%	6.64%	1.2367	553.8 M
Diversified Income Fund*	1.95%	4.96%	7.40%	8.75%	10.85%	1.8645	2,470.5 M
Balanced Fund	1.85%	9.87%	9.03%	9.25%	10.10%	2.7045	1,104.9 M
Active Growth Fund#	2.02%	10.52%	10.46%	10.56%	12.55%	4.4637	1,380.2 M
Australian Absolute Growth Fund	1.88%	9.29%	—	—	8.54%	1.2569	240.3 M
Cash and Fixed Income Funds							
Trans-Tasman Bond Fund*^	0.23%	5.95%	5.17%	5.19%	5.58%	1.2137	847.1 M
Global Corporate Bond Fund*^	0.52%	5.62%	4.67%	—	5.34%	1.1110	815.9 M
Cash Fund	0.03%	0.65%	—	—	1.19%	1.0220	101.7 M
Equity Funds							
Global Equity Fund†	1.80%	19.58%	12.16%	10.32%	10.00%	2.0662	1,014.1 M
Trans-Tasman Equity Fund*	2.82%	17.31%	14.97%	15.69%	12.25%	3.7285	707.2 M
Dynamic Fund	3.49%	18.71%	13.35%	13.14%	14.03%	2.5622	513.1 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.
Inception dates for the Funds: Active Growth Fund: 1 October 2007, Trans-Tasman Equity Fund: 1 October 2007, Balanced Fund: 1 April 2010, Diversified Income Fund: 1 April 2010, Global Equity Fund: 12 April 2013, Dynamic Fund: 1 October 2013, Trans-Tasman Bond Fund: 2 December 2013, Conservative Fund: 1 September 2015, Global Corporate Bond Fund: 1 February 2017, Australian Absolute Growth Fund: 1 March 2018, Cash Fund: 1 March 2019.
*Performance figures include the reinvestment of the Funds' distribution.
^Returns prior to 1 March 2018 are from when the Fund was previously offered to wholesale investors only and have been adjusted for current Fund charges.
†Returns prior to 1 October 2018 are from when the Fund was structured to achieve an absolute return.
#The Active Growth Fund is closed to new investors.

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)	2.58%	14.62%	16.96%	16.84%	16.91%
S&P/ASX 200 Accumulation Index (AUD)	1.21%	1.40%	6.73%	8.73%	7.38%
S&P/ASX 200 Accumulation Index (NZD)	3.49%	4.30%	5.81%	8.88%	7.16%
MSCI World Index (local currency)*	3.51%	13.48%	10.20%	11.57%	9.91%
MSCI World Index (NZD)*	1.75%	8.60%	10.09%	11.07%	11.28%
S&P/NZX 90-Day Bank Bill Rate	0.02%	0.65%	1.43%	1.76%	2.22%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	0.31%	5.58%	5.15%	4.48%	4.42%
S&P/NZX NZ Government Bond Index	-0.87%	5.42%	4.98%	4.77%	5.30%

*With net dividends reinvested

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

Multi-Asset Funds

Conservative Fund	Diversified Income Fund	Balanced Fund	Active Growth Fund	Australian Absolute Growth Fund
Scentre Group 5.125% 2080 1.20%	Contact Energy 2.74%	Fisher & Paykel 2.05%	Fisher & Paykel 4.48%	NAB 6.38%
NZLGFA 1.5% 2029 1.11%	Spark 2.28%	Spark 1.84%	Spark 3.84%	BHP 5.98%
Housing NZ 3.36% 2025 1.07%	Scentre Group 5.125% 2080 2.06%	Contact Energy 1.70%	Summerset 3.03%	Woolworths 4.28%
Westpac 2.22% 2024 1.01%	Woolworths 1.72%	Scentre Group 5.125% 2080 1.12%	Contact Energy 2.12%	Fisher & Paykel 4.09%
NZLGFA 3.5% 2033 1.01%	Wesfarmers 1.63%	Summerset 1.04%	EBOS Group 1.90%	ANZ 3.97%
IBRD 0.625% 2027 0.94%	Goodman 1.63%	Microsoft 1.00%	Dr Horton 1.79%	Rio Tinto 3.65%
NAB Float 2030 0.88%	Transurban 1.58%	Mainfreight 0.97%	BHP 1.57%	Telstra 3.27%
Kiwibank 2.36% 2030 0.88%	Meridian 1.54%	Woolworths 0.95%	Kiwi Property 1.51%	Wesfarmers 2.90%
Transpower 1.735% 2025 0.88%	Telstra 1.48%	Telstra 0.93%	Scentre Group 5.125% 2080 1.48%	Santos 2.83%
ASB Bank 1.83% 2024 0.87%	Coles 1.38%	Amazon 0.90%	Rio Tinto 1.43%	IAG 2.64%

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).

Cash and Fixed Income Funds

Trans-Tasman Bond Fund	Global Corporate Bond Fund	Cash Fund
NZLGFA 1.5% 2029 2.43%	Kerry Group 0.625% 2029 1.62%	Westpac 32 Day CMD 2020 14.86%
Housing NZ 3.36% 2025 2.43%	American Tower 3.8% 2029 1.60%	Kiwibank 0.6% 2021 9.35%
Westpac 2.22% 2024 2.31%	Seagate 4.091% 2029 1.60%	Meridian CD 2021 6.58%
NZLGFA 3.5% 2033 2.30%	Danaher Corp 0.45% 2028 1.55%	NZLGFA 0% 2021 4.91%
IBRD 0.625% 2027 2.14%	Scentre Group 5.125% 2080 1.52%	Genesis 0% 2021 4.91%
Transpower 1.735% 2025 2.00%	McDonald's 3% 2024 1.48%	Contact CD 2021 4.91%
ASB Bank 1.83% 2024 1.97%	NAB Float 2030 1.43%	Port of Tauranga CD 2021 4.91%
ANZ Bank Float 2024 1.90%	NXP BV 4.3% 2029 1.42%	ANZ 0.45% 2021 3.93%
Macquarie Float 2025 1.90%	John Deere 1.75% 2024 1.38%	TSB Bank CD 2021 3.93%
Macquarie Float 2025 1.80%	Crown Castle 2.25% 2031 1.34%	Mercury CD 2021 3.93%

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).

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

Equity Funds

Global Equity Fund	Trans-Tasman Equity Fund	Dynamic Fund
Amazon 3.53%	Fisher & Paykel 7.37%	Sealink Travel 3.90%
Microsoft 3.43%	Mainfreight 4.39%	Fisher & Paykel 3.60%
Apple 3.36%	a2 Milk 3.96%	Collins Foods 3.40%
Alphabet 3.02%	BHP 3.60%	EML Payments 3.18%
Intercontinental Exchange 2.89%	Xero 3.57%	Lifestyle Communities 3.10%
HDFC Bank 2.80%	Infratil 3.57%	Seven Group 3.04%
TSMC 2.60%	CBA 3.46%	CSR 2.97%
Paypal 2.53%	CSL 3.00%	IGO 2.67%
TransUnion 2.42%	Summerset 2.68%	Australian Finance 2.67%
Anthem 2.37%	Ryman Healthcare 2.66%	HUB24 2.64%

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 and Milford staff have approximately $30.4 million invested across our Investment Funds as at the end of December 2020.

Marissa Rossi
Head of Sustainable Investing

Investment Highlight - Wesfarmers & ESG

Wesfarmers is Australia's largest Industrial conglomerate, best known for its hardware business, Bunnings. When we analyse Wesfarmers as a potential investment, we consider all aspects of its business fundamentals, including the resilience of the diversified earnings base, the strength of the balance sheet and the sustainability of the dividend.

As a corporate entity, Wesfarmers has long been recognised for its culture and focus on investment returns. Strategic and operational decisions have always been guided by the company's emphasis on doing the right thing, and by its long-term perspective with respect to shareholder value creation.

Can you provide an example of how Wesfarmers' formal sustainability framework evolved?

In 2013, a garment factory outside Dhaka in Bangladesh collapsed, tragically killing more than 1,000 workers. While Wesfarmers did not have relationships with any of the affected suppliers, the management team appreciated this had simply been good luck. The company had no system in place that could have detected exposure to such a risk.

At considerable expense, Wesfarmers established and rolled-out its ethical sourcing policy, now a major program within each of the company's retail businesses. While the magnitude of the investment raised questions at the time, withholding that expenditure to maximise short-term reported profits would not have been rewarded under the company's remuneration structure, and therefore was not contemplated.

Did the money Wesfarmers spent auditing its supply chain pay off?

The financial benefits of that investment are now clear. Consumers are attracted to Wesfarmers' retail brands, confident the products have been ethically sourced. The company's ethical sourcing program has cemented its relationships with suppliers resulting in better quality output.

Back in 2013, many investors identified Wesfarmers' decision as the trademark of a high quality company. Today, the company is more explicitly recognised as one with strong Environmental, Social and Governance (ESG) credentials. Company decisions like this one are now interpreted within the context of the company's formal Sustainability framework.

Why do Milford own Wesfarmers shares and has it been a good investment?

Milford funds bought into Wesfarmers during March-April COVID lockdowns. The share price has appreciated 36% since that time.

Bunnings represents more than 60% of group earnings and has an almost unassailable competitive position in Australian hardware. As well as Bunnings, the Officeworks and Catch.com businesses grew earnings strongly in 2020, while Australian consumers spent more time relaxing, working and shopping from home.

In our mind, Wesfarmers' ESG focus deserves a valuation premium compared to less ESG focused peers. Above and beyond our strong profit expectations and dividend forecasts, the strength of the company's ESG credentials give us increased confidence that earnings and returns are sustainable.

Furthermore, the company's ESG framework reduces the likelihood it will be connected to a catastrophe, like the one in Bangladesh, that cost human lives, and has the potential to lead to material negative financial, reputational and regulatory outcomes. We similarly recognise that Wesfarmers' strong environmental strategies and net zero carbon targets reduce the business risk posed by climate change.