Milford KiwiSaver Plan
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.

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MILFORD
KIWISAVER PLAN

KiwiSaver Cash Fund

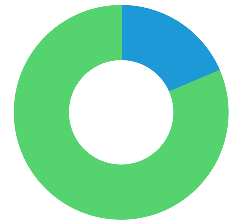
Portfolio Manager: Paul Morris

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.

Actual investment mix [1]



The actual cash held by the Fund is 18.61%. 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

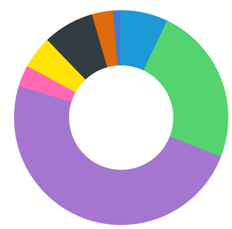
Portfolio Manager: Paul Morris

The Fund returned 0.8% 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.



The actual cash held by the Fund is 5.96%. 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

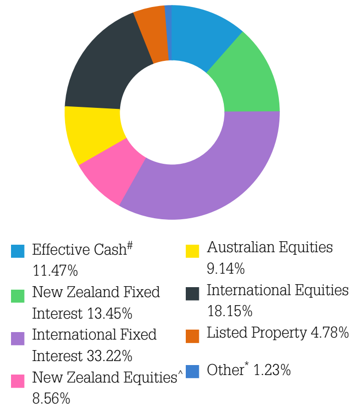
The Fund returned 1.3% in December. The month saw continued strength from all the share markets the Fund invests into. Despite the surges of COVID-19 in the US and Europe, investors remain optimistic about further fiscal support in the US, a swift rollout of vaccines and a final resolution of the Brexit saga.

NZ shares performed particularly well, 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.

Whilst government bond markets were weaker in the month, 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. 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.

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 justifies the moderately higher the neutral exposure to shares in the Fund.

Actual investment mix [1]



The actual cash held by the Fund is 11.08%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

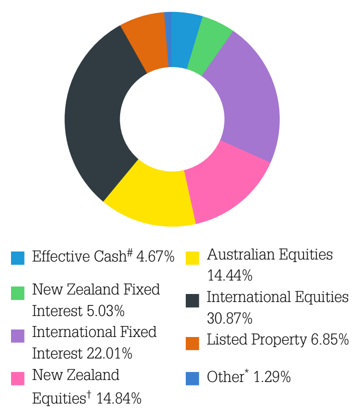
KiwiSaver Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 1.9% in December bringing the one-year return to 10.2%. 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.



The actual cash held by the Fund is 5.09%. 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 0.09%. †Includes unlisted equity holdings of 0.19% *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

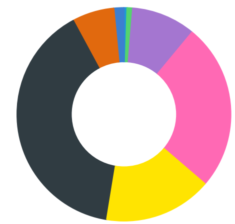
Portfolio Manager: Jonathan Windust

The Fund rose 2.2% 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.

Actual investment mix [1]



- Effective Cash# 0.46%
- New Zealand Fixed Interest 0.86%
- International Fixed Interest 9.68%
- New Zealand Equities‡ 25.29%
- Australian Equities 16.29%
- International Equities 39.55%
- Listed Property 6.35%
- Other* 1.52%

\# The actual cash held by the Fund is 3.06%. 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

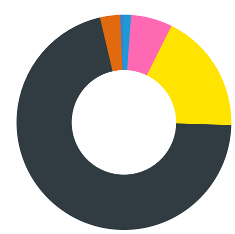
The Fund gained 2.3% in December and is up 20.6% for 2020.

Key positive contributors for the month included Japanese entertainment company Nintendo (+11.1%), benefitting from strong hardware sales of its Switch console & robust software game sales. The world's largest company Apple also finished the year on a strong note (+11.5%), gaining a remarkable 82% in 2020. During the month, investors reacted positively to the launch of 5G iPhones and the potential for an Apple car. Intuitive Surgical, the leader in robotic surgery (da Vinci Surgical System), capped off 2020 in style gaining 12.7% in December. 2020 was a challenging year operationally for Intuitive as the pandemic led to a delay in procedures, but procedure growth is expected to gradually recover in 2021.

Detracting from performance for a second month was Alibaba (-11.0%), as regulatory concerns continued to overhang the stock. D.R. Horton, the largest US homebuilder, also lagged (-7.2%), as slightly higher interest rates and surging home prices raised concerns about affordability. We remain positive on D.R. Horton given strong US housing fundamentals, as demand remains strong, and we particularly like their market leading position in entry level homes.

Positive contributors in Australasia included iron ore producer BHP Group (+11.5%), benefitting from the soaring iron ore price. Also, Infratil surged in December (+22.7%), after Australian Super made a takeover bid for the company. Key detractors included a2 Milk (-18.2%) and Fisher & Paykel Healthcare (-7.6%).

After a difficult 2020, we are reasonably constructive on the outlook for 2021 given the positive vaccine developments and continued supportive policy backdrop including very low interest rates. Incrementally, we have been allocating to more cyclically exposed companies as we expect the recovery to gather steam this year.



- Effective Cash# 1.15%
- International Fixed Interest 0.04%
- New Zealand Equities 6.20%
- Australian Equities 18.10%
- International Equities 70.83%
- Listed Property 3.02%
- Other* 0.66%

\# The actual cash held by the Fund is 6.87%. 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 1.36% *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%	–	–	–	–	1.0029	16.7 M
KiwiSaver Conservative Fund	0.78%	6.48%	6.02%	6.68%	8.76%	1.9672	181.9 M
KiwiSaver Moderate Fund	1.26%	–	–	–	–	1.1509	30.0 M
KiwiSaver Balanced Fund	1.88%	10.23%	9.24%	9.46%	10.35%	2.7717	525.7 M
KiwiSaver Active Growth Fund^	2.17%	10.69%	10.59%	10.67%	12.66%	4.5208	1,976.2 M
KiwiSaver Aggressive Fund	2.33%	20.59%	–	–	17.95%	1.2618	284.1 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.
*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)	2.58%	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

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 14.75%	Scentre Group 5.125% 2080 1.20%	Spark 1.18%
Kiwibank 0.6% 2021 9.28%	NZLGFA 1.5% 2029 1.11%	Contact Energy 1.18%
Meridian CD 2021 6.53%	Housing NZ 3.36% 2025 1.06%	Scentre Group 5.125% 2080 1.10%
NZLGFA 0% 2021 4.88%	Westpac 2.22% 2024 1.01%	Fisher & Paykel 1.05%
Genesis 0% 2021 4.88%	NZLGFA 3.5% 2033 1.01%	Woolworths 0.68%
Contact CD 2021 4.88%	IBRD 0.625% 2027 0.94%	Telstra 0.64%
Port of Tauranga CD 2021 4.87%	NAB Float 2030 0.88%	Meridian 0.63%
ANZ 0.45% 2021 3.90%	Kiwibank 2.36% 2030 0.88%	NZLGFA 1.5% 2029 0.60%
TSB Bank CD 2021 3.90%	Transpower 1.735% 2025 0.87%	NAB Float 2030 0.60%
Mercury CD 2021 3.90%	ASB Bank 1.83% 2024 0.86%	AusNet Float 2080 0.60%

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 2.10%	Fisher & Paykel 4.52%	Amazon 2.27%
Spark 1.86%	Spark 3.88%	Microsoft 2.18%
Contact Energy 1.72%	Summerset 3.06%	Intercontinental Exchange 2.10%
Scentre Group 5.125% 2080 1.12%	Contact Energy 2.15%	Alphabet 2.10%
Summerset 1.05%	EBOS Group 1.92%	HDFC Bank 1.88%
Microsoft 1.02%	Dr Horton 1.81%	Nintendo 1.81%
Mainfreight 0.99%	BHP 1.59%	HCA Holdings 1.72%
Woolworths 0.95%	Kiwi Property 1.52%	Visa 1.72%
Telstra 0.93%	Scentre Group 5.125% 2080 1.49%	Ametek 1.64%
Amazon 0.92%	Rio Tinto 1.44%	Mastercard 1.61%

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 $13.7 million invested in the Milford KiwiSaver Plan 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 diversifie 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.

It's not too late to make a new year's resolution that you stick to

Murray Harris
Head of KiwiSaver & Distribution

Many of us kick off each new year with a list of resolutions we know we probably won't stick to. Whether it be to exercise more, take up a new hobby or save a few more dollars – as the year rolls by and we get back into our busy daily routines, these best intended goals fall by the wayside.

When it comes to your KiwiSaver investment the new year is a great time to have a good think about your goal, whether that's buying your first home or saving for a comfortable retirement. Do you even have a goal? If you do that's great, but are you on track to achieve it? If you make a few small tweaks now, how will this change your future? So many questions, but taking a few minutes to think about these, and with the right help, could see you thousands of dollars better off or achieving your goal sooner.

We have a number of tools to help you set and achieve your KiwiSaver goals. In your online portal you will see a section called 'Tools & Calculators'. In here you can access our **Digital Advice** tool which will help you check your appetite for risk, recommend the right fund and see if you are contributing enough to reach your goal. You can make changes in the tool to see what impact they will have on your results and then you can make any changes the tool recommends to get on track.

If you just want to quickly see what your KiwiSaver balance is likely to be at age 65 and how much you could spend each year in retirement, then you can use our **Forecast My Balance** tool. And finally, for those of you who have reached age 65 you can use our **Spend My KiwiSaver** tool. This tool will show you how much you could spend in each year of your retirement. It will also let you see the difference that leaving your KiwiSaver funds invested could make to how long your nest egg will last. With the tool you can set up regular payments from your KiwiSaver account directly to your bank account. It couldn't be simpler!

If you only make one new year's resolution in 2021 make it to check you're on track with KiwiSaver. We have provided you with the tools to make it easy and to help you achieve your goal. A few minutes now could see you reaping the rewards at retirement.