Milford Investment Funds
Monthly Review March 2021

You can't keep a good yield down

It's rare that government bond markets attract widespread attention, primarily because they are typically sedate investments. But the sharp falls in government bond prices last month has implications for assets of all stripes, so investors should take notice. Falling bond prices are the markets' way of determining that governments should pay higher interest rates (known as bond yield) to borrow going forward.

The interest rate on NZ government bonds with 10yrs to maturity leapt from around 1% in January to as much as 1.9% during February, echoing similar moves in other global bond markets. The NZX 50 share market's almost 7% plunge in the month was partly related to this bond market move.

Higher interest rates make shares with high dividends relatively less attractive, sending utility and property company share prices lower. Fast growing company share prices also suffer as higher interest rates diminish the value of long term cashflows. This saw the share prices of growth companies fall in February, including Fisher & Paykel Healthcare (-15.6%) but also the large US technology companies.

The rapidly improving global economic picture is behind the rise in bond yields, i.e. they are reflecting expectations of strong economic growth over the next few years. This 'good' rise in yields also reflects an improving outlook for cyclical companies and diversified financials such as banks, areas we have been adding to recently. Barclays Bank in the UK (+20.3%) and Rio Tinto (+15.3%) are just two examples of these last month.

The chance of higher government bond yields has been on our radar for a while. In addition to stock selection, we have been reducing exposure to government bond markets across many of our funds. Nonetheless, given the sharp falls in bond markets, it is the lower risk funds that have seen some negative returns last month (lower risk funds tend to hold more bonds). Individual fund commentaries provide further detail on how each fund has managed the risks.

We remain constructive on the outlook. Further increases in bond yields and moderately expensive valuations will likely constrain broad returns from shares but provide plenty of opportunity to position in companies best placed to capture the improved growth ahead.

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Conservative Fund

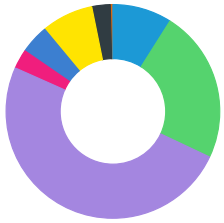
Portfolio Manager: Paul Morris

The weakness in bonds which capped Fund returns in January accelerated during February. Global and Australasian bond prices fell on rising market interest rates as confidence increased in the growth outlook and markets pulled forward expectations for eventual monetary policy tightening. Irrespective of (i) interest rate exposure well below long run neutral and (ii) a predominant bond exposure to corporate bonds (which outperformed government bonds), the Fund's bonds delivered a negative return.

The move in bond yields also caused falls in many of the Fund's shares; notably Australasian income-oriented shares but it was also a headwind for many of the Fund's global growth-oriented shares. This culminated in a negative monthly Fund return of -0.8%, however it is up 4.1% over 1-year.

Looking ahead, our medium-term base case remains moderately optimistic. Reopening of economies combined with government and monetary policy support should boost activity and earnings. This may allow many company share valuations to navigate the likely rising interest rates and we are still finding attractive opportunities. Therefore, while we trimmed overall share exposure, it remains close to long run neutral. We continue to believe corporate bonds will outperform government bonds and cash over time, but we will actively manage interest rate exposure to cushion Fund returns from rising rates. In aggregate, this should underpin a moderate medium-term Fund return but we reiterate that as markets adjust to the risk of higher interest rates, (i) near term monthly returns could be more volatile and (ii) medium-term returns may moderate relative to recent years.

Actual investment mix [1]



- Effective Cash# 8.97%
- Australian Equities 4.38%
- New Zealand Fixed Interest 23.05%
- International Equities 7.84%
- International Fixed Interest 49.64%
- Listed Property 2.79%
- New Zealand Equities 2.93%
- Other* 0.40%

The actual cash held by the Fund is 8.03%. 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

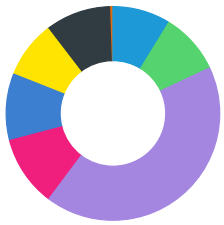
Portfolio Manager: David Lewis

The Fund fell 1.4% in February and is up by 3.1% in the past year. Increases in market interest rates over the month drove negative bond returns; -1.6% for the broader global bond market, with sharper declines in typically lower-risk government bonds (-3.6% and -4.8% in NZ and Australian government bonds, for example). Share market returns were solid globally (+2.7%), but weaker in income or dividend-oriented companies, reflected in weak performance for the NZ share market (-6.9%).

Fortunately, the Fund has in recent months been positioning for a move higher in interest rates, using strategies such as selling bond futures (in the US, Australia, and Europe), reducing exposure to certain income shares, and adding a small amount of cyclical shares (such as resource companies). These strategies helped cushion the impact of February's moves.

Within our share portfolio, we saw large declines from Contact (-16.3%) and Meridian (-20.3%), as the NZ electricity sector fell back further from the lofty heights reached in early January. Having reduced positions last month, the Fund was buying back into both companies over February. Looking ahead we continue to anticipate short term price volatility in these companies as offshore ETF holdings change.

Elsewhere in our share portfolio, we saw strong gains from BHP (+12.8%), Santos (+12.5%), and Aena (owner of European airports, +10.7%). We remain optimistic about prospects for economic growth this year as both fiscal and monetary policy support, and vaccines, should drive a rebound in activity globally. Alongside generally fair valuations for our holdings this suggests a reasonably positive outlook for shares. Looking at fixed income, while bond valuations have improved, we remain mindful of the risk of further weakness and volatility as interest rates potentially move higher. That said, once the process of rising interest rates is over, returns for the Fund (and other income-oriented assets) will benefit from higher yields.



- Effective Cash# 8.77%
- Australian Equities 10.10%
- New Zealand Fixed Interest 9.22%
- International Equities 8.58%
- International Fixed Interest 42.24%
- Listed Property 9.90%
- New Zealand Equities 10.68%
- Other* 0.51%

The actual cash held by the Fund is 7.62%. 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

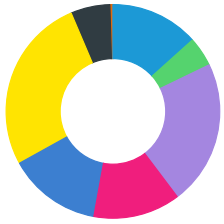
The Fund returned 0.3% in the past month, bringing the 1-year return to 10.7%.

Bonds typically make up 40% of the Fund's investments, so when bonds fell sharply as they did in February, this becomes a challenge to manage. We are very aware of the importance of government bond yields (effectively the interest rate governments pay to borrow for different periods) for valuations of all asset types. The improving economic outlook around the world means that bond investors are effectively demanding more return on their investment – i.e. higher bond yields. To protect against falling bond prices in the Fund we took out insurance in the form of short futures that would pay off in this scenario – helping cushion performance last month.

The share portfolio was also heavily impacted and here too we were active in capturing favourable moves for the benefit of the Fund. High growth companies and high dividend yielding stocks were the hardest hit in the month. Stock selection in the underlying funds helped avoid large exposures to these companies. Conversely, stocks that are benefitting from improved economic fundamentals and higher bond yields have been key additions to our funds over the past few months. These include financials and the mining companies in Australia, both of which performed well last month.

We remain positive on the outlook. The Fund is positioned for this with a still cautious approach to bonds and an ongoing tilt to cyclical and financial stocks in Australia and the rest of the world.

Actual investment mix [1]



- Effective Cash# 13.35%
- New Zealand Fixed Interest 4.48%
- International Fixed Interest 21.89%
- New Zealand Equities† 13.14%
- Australian Equities 14.08%
- International Equities 26.66%
- Listed Property 5.94%
- Other* 0.46%

The actual cash held by the Fund is 10.03%. 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

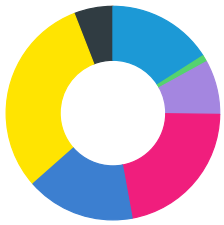
Portfolio Manager: Jonathan Windust

The Fund rose 2.1% in February. Global share markets ended up 2.7% having given back some earlier gains as markets became concerned about rising bond yields and the impact on highly valued companies. The NZ share market ended the month down 6.9% with sharply negative returns from utilities and large cap companies Fisher & Paykel Healthcare and a2 Milk. The Fund performed strongly relative to the markets it invests in due to strong company selection and strategies to protect against rising bond yields.

Key positives during the month included global Banks; Virgin Money UK (+39.5%), LLoyds (+18.2%) and JP Morgan (+14.4%). Banks benefitted from a combination of lower bad debts and higher interest rates on their investments. Materials companies also generated good gains including Australian miners BHP (+12.8%), RIO Tinto (+15.3%) and US aggregates company Martin Marietta (+17.4%). Materials companies are benefitting from strong demand and higher commodity prices. During the month the Fund added to our holdings in Alphabet, the parent company of Google. Alphabet delivered a strong quarterly result with revenues rising 23% and profits 44% on the previous year. We believe Alphabet is well positioned to continue to grow as economies reopen and as Cloud computing grows. Importantly we think that Google is attractively valued.

The outlook for share markets is supported by the expectation of an economic rebound in 2021 and an improvement in company earnings (as Covid headwinds subside), low interest rates and high levels of liquidity. The key headwind for markets is relatively high market valuations, generally optimistic investor sentiment and the prospect of rising interest rates. On balance we retain a positive outlook for shares over 2021 but given high levels of optimism we remain selective in our investments and look to avoid over-hyped companies and those sensitive to rising long-term interest rates.

Please note this Fund is closed to new investors.



- Effective Cash# 15.97%
- New Zealand Fixed Interest 1.03%
- International Fixed Interest 8.19%
- New Zealand Equities‡ 21.93%
- Australian Equities 16.36%
- International Equities 30.61%
- Listed Property 5.83%
- Other* 0.08%

The actual cash held by the Fund is 9.45%. 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% ‡Includes unlisted equity holdings of 1.57% *Other includes currency derivatives used to manage foreign exchange risk. [1]The actual investment mix incorporates the notional exposure value of equity derivatives and credit default swaps, where applicable.

Australian Absolute Growth Fund

Portfolio Manager: William Curtayne & Wayne Gentle

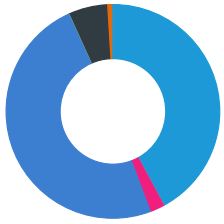
The Fund rallied strongly in February, up 4.5%, bringing the twelve-month return to 18.4%, well ahead of the 7.2% return by the ASX 200 and 5.3% by the benchmark (OCR + 5%).

This outperformance was driven by a higher allocation to miners and financials and avoidance of expensive growth stocks and rate-sensitive bond proxies. As the market became more optimistic about vaccine rollouts, and then concerned about an overheating economy, cyclical companies like miners and financials rallied while bond yields broke higher causing growth stocks to sell-off.

Virgin Money UK, an ASX listed UK bank was our strongest performer over the month. It rallied 39.5% as investors took a less pessimistic view towards bad debts and profit margins. Our mining company investments also made large contributions, as did our small cap stock picks Universal Stores (+21.4%) and Sealink (+32.6%) which both reported very strong results.

As the Fund took profits on our fully valued positions over the last two months, we made the decision to allow cash to increase. The strong share market returns over the last year have pushed the valuations on certain parts of the market to levels where we see unfavourable risk-return dynamics. As such we will avoid these areas and wait for opportunities to deploy our cash into businesses where the risk-return equation is favourable.

Actual investment mix [1]



- Effective Cash# 42.13%
- Listed Property 5.82%
- New Zealand Equities 2.18%
- Other* 0.96%
- Australian Equities 48.91%

The actual cash held by the Fund is 26.79%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

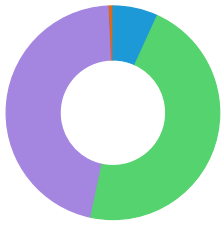
Trans-Tasman Bond Fund

Portfolio Manager: Paul Morris

Australasian government bonds had one of their worst months ever in February as global bonds were impacted by markets pricing in an earlier tightening in monetary policy. Things were further exacerbated in NZ by the market initially reading the change to the Reserve Bank of New Zealand's (RBNZ) remit, to contemplate policy impact on housing, as meaning an earlier exit of loose policy settings. Corporate bonds remain the Fund's predominant exposure and were also weak, albeit less so. That provided some cushioning to returns but the Fund was still down 1.3%.

While disappointing, this was better than the benchmark due to factors including the Fund's lower than neutral interest rate exposure and larger than neutral exposure to less interest rate sensitive bonds. As the bond market sell-off became over-extended we did add back interest rate exposure, especially in NZ dollars where pricing of rate hikes was overdone. This means overall interest rate exposure is now closer to neutral, but we retain exposure to steepening yield curves. Our base case sees shorter dated yields anchored by on hold policy/cash rates over the next year at least but we remain wary longer dated yields may increase further on better growth and inflation outcomes.

Separately we have been trimming the above neutral exposure to further outperformance of corporate bonds (including subordinated) relative to governments, looking for cheaper levels to build this again. Looking forward, we believe corporate bonds will outperform government bonds, but absolute returns may face a headwind of rising yields which will need active management to deliver a moderate return.



- Effective Cash# 6.82%
- Other* 0.74%
- New Zealand Fixed Interest 46.50%
- International Fixed Interest 45.94%

The actual cash held by the Fund is 2.36%. 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

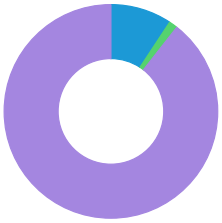
Portfolio Manager: Paul Morris

Weakness in global bond markets accelerated in February. Economic growth forecasts rose on a combination of vaccine deployments and increases to the size of expected fiscal stimulus. Market pricing for future inflation has increased this year but in February markets also began bringing forward pricing for an earlier reduction in monetary policy stimulus. This led to a volatile month as government bond yields moved higher (prices lower).

The Fund's allocation to corporate bonds (corporate bonds again generally outperformed) and its lower than neutral interest rate exposure cushioned returns somewhat. Unfortunately, it was insufficient to prevent a negative return of 0.2% in the month. The Fund used the relative corporate bond strength to reduce its above neutral exposure to further outperformance of corporate bonds relative to governments. It retains less exposure to the weakest parts of the high yield market where further outperformance is less likely due to valuations, retaining subordinated bonds of investment grade corporates (including banks) instead.

Looking forward, risks remain for a further move higher in interest rates over time. Fund interest rate exposure remains below neutral but is greater than earlier in the month after taking some profit on hedges. We wait for better levels to reduce this exposure again. Over coming months corporate bonds should continue to outperform governments but again we wait for cheaper opportunities in periods of higher volatility to add. Active management of the Fund should underpin moderate medium-term returns, albeit likely lower than in recent years.

Actual investment mix [1]



Effective Cash# 9.27%
Other* 0%
New Zealand Fixed Interest 1.30%
International Fixed Interest 89.43%

The actual cash held by the Fund is 7.41%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

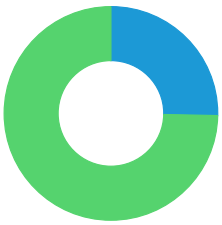
Cash Fund

Portfolio Manager: Paul Morris

Short-dated NZ dollar interbank money market interest rates continued their very gradual drift higher. The market focus remains on when the Reserve Bank of New Zealand (RBNZ) might raise the Official Cash Rate (OCR) in the future, rather than when it will bring the rate negative. The change in the RBNZ remit, to contemplate the monetary policy impact on housing, has amplified this expectation. That said, our base expectation remains that the RBNZ OCR will be on hold for the next year at least.

We also reiterate the excess liquidity in the financial system (exacerbated by the RBNZ Funding for Lending Programme or FLP) means a lot of money is chasing short-dated financial assets. Combined with the fall in bank deposit rates, this may put a near-term cap on the yield/interest rate available from shorter dated financial instruments. As we previously discussed this will likely diminish the excess return over the OCR the Fund can generate over the near term.

These developments have however 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 25.32%
Other* 0%
New Zealand Fixed Interest 74.68%

*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

The Fund rose 1.2% in February, which was 1.0% behind the market index. In the past year, the Fund returned 20.5% compared to the market index return of 17.1%.

Key positive contributors included retail broker and financial services firm Charles Schwab (+20.1%). The Fund added this holding at the end of last year as a beneficiary of higher interest rates and growth in value of shares and bonds.

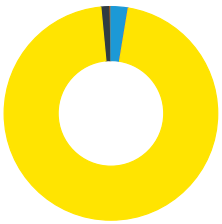
Elsewhere, US quarry owner Martin Marietta (+17.4%) rose on expectations of higher infrastructure spending under the new Biden administration. Aggregates are bulky and low in value. This makes long distance trading unattractive and supports local quarry operators' ability to raise prices over time.

Detractors included Covid-19 winners as investors anticipate a successful vaccine rollout. Apple (-8.0%) came under profit-taking. Sales of the iPad and MacBook were lifted by the pandemic last year which in turn creates a higher earnings hurdle for this year.

Similarly, Thermo Fisher Scientific (-11.7%) benefitted from large scale testing and came under pressure during the month as investors favoured laggards and more cyclical companies. Thermo Fisher is a leader in tools and equipment used in advancing life sciences which is an attractive position long term.

The Fund continues to assess opportunities on a forward-looking basis. We are optimistic on the economic outlook, given the positive vaccine developments provide light at the end of the tunnel. The portfolio remains focused on our key investment themes and dominant companies.

Actual investment mix [1]



Effective Cash# 2.61%
Listed Property 1.20%
Other* 0.31%
International Equities 95.88%

The actual cash held by the Fund is 4.17%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

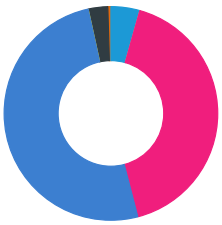
Trans-Tasman Equity Fund

Portfolio Manager: Sam Trethewey

February was another mixed month for the Fund as the local markets grappled with a move higher in interest rates and the prospect of improving economic growth. The Fund pulled back 1.5% compared to a 6.9% decline in the NZX 50 index and 1.5% return for the ASX 200 index. The dispersion in performance is driven by market composition. Interest rate sensitive stocks represent approximately half the NZX while the ASX is dominated by companies which are beneficiaries of strong economic growth.

We managed to offset some of the NZX pull back via good stock selection. Highlights included retirement village operator Summerset (+5.6%), cinema software developer Vista (+14.1%). Summerset delivered a strong FY20 result and benefitted from positive investor sentiment given the strong housing market. Vista Group rallied on the prospect of cinemas reopening across the globe as Covid-19 case numbers fall. On the ASX, bank Virgin Money UK (+39.5%) stood out. This is a UK based retail bank that benefitted from improved investor confidence in the reopening and recovery of the UK. Elsewhere we added to our holding in Fisher & Paykel Healthcare as the stock was sold by the market on the rising interest rate concerns. We believe the market is pricing a conservative post Covid-19 earnings outlook for the company and remain comfortable with the medium-term outlook. We trimmed holdings in Afterpay and Goodman Group early in the month and added to recovery exposures like CSL and Aristocrat.

February illustrated the different sensitivities of the ASX and NZX to changes in interest rates. Outside of this, the February reporting season demonstrated that the financial performance of our companies is very sound. 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.



Effective Cash# 4.37%
Listed Property 2.96%
New Zealand Equities 41.58%
Other* 0.47%
Australian Equities 50.62%

The actual cash held by the Fund is 5.81%. 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

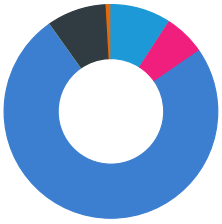
Portfolio Manager: William Curtayne & Michael Higgins

The Fund returned 2.8% in February, outperforming the S&P/ASX Small Ordinaries benchmark by 1.3%, making this reporting season one of the best in recent memory.

Performance was led by our largest position SeaLink (+32.6%) following a stellar result. SeaLink continues to win key commuter bus contracts, having secured routes in South Australia, Queensland, Western Australia and Singapore. The upcoming tender pipeline also looks promising. Digital payments service provider EML Payments (+29.6%) produced another strong earnings result. Other top performers include Virgin Money UK (+39.5%), an ASX listed UK bank. Virgin Money provides exposure to rising rates and an improving mortgage market in the UK.

Detractors included gold miner Northern Star (-20.5%) and Fisher & Paykel Healthcare (-15.6%) as Covid-19 "winners" sold-off. The prospect of a broad recovery in economic activity continues. This is being driven by steady progress on vaccinations which have begun rollout domestically and steady fiscal and monetary support. However, a significant risk across equity markets are the clear pockets of speculation that are emerging. While this is more acute in global markets, there are initial signs closer to home in valuations on loss-making businesses and some IPOs. Our style neutral approach has allowed us to tilt the portfolio towards recovery stocks where we can identify relative value.

Actual investment mix [1]



The actual cash held by the Fund is 9.18%. 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)	22/04/2021
Diversified Income Fund	1.1 cents (Quarterly)	20/05/2021
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*	-0.82%	4.08%	5.63%	6.43%	6.26%	1.2204	549.5 M
Diversified Income Fund*	-1.35%	3.06%	6.97%	8.40%	10.51%	1.8224	2,461.7 M
Balanced Fund	0.26%	10.70%	8.83%	9.82%	9.92%	2.6979	1,177.4 M
Active Growth Fund#	2.05%	14.71%	10.83%	11.73%	12.56%	4.5535	1,443.6 M
Australian Absolute Growth Fund	4.48%	18.39%	10.12%	—	10.12%	1.3298	271.6 M
Cash and Fixed Income Funds							
Trans-Tasman Bond Fund*^	-1.25%	2.41%	4.50%	4.65%	5.25%	1.1971	850.2 M
Global Corporate Bond Fund*^	-0.16%	3.71%	4.65%	—	5.04%	1.1075	828.0 M
Cash Fund	0.03%	0.45%	—	—	1.12%	1.0225	101.3 M
Equity Funds							
Global Equity Fund†	1.18%	20.48%	11.80%	11.54%	9.69%	2.0525	1,060.2 M
Trans-Tasman Equity Fund*	-1.47%	16.89%	14.12%	16.46%	11.94%	3.6605	716.5 M
Dynamic Fund	2.82%	29.92%	14.52%	15.66%	14.35%	2.6702	580.1 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)	-6.85%	9.21%	14.44%	15.59%	14.92%
S&P/ASX 200 Accumulation Index (AUD)	1.45%	6.48%	7.39%	10.74%	7.37%
S&P/ASX 200 Accumulation Index (NZD)	1.44%	8.99%	6.91%	10.35%	7.37%
MSCI World Index (local currency)*	2.65%	26.08%	10.84%	13.58%	10.07%
MSCI World Index (NZD)*	1.66%	10.34%	10.52%	11.89%	11.52%
S&P/NZX 90-Day Bank Bill Rate	0.02%	0.45%	1.34%	1.67%	2.16%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	-1.56%	0.32%	4.74%	3.55%	3.82%
S&P/NZX NZ Government Bond Index	-3.63%	-2.37%	3.68%	3.29%	4.48%

*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
NZLGFA 1.5% 2026 2.16%	Contact Energy 2.36%	Fisher & Paykel 1.83%	Fisher & Paykel 3.92%	NAB 6.42%
Housing NZ 3.36% 2025 1.04%	Spark 2.15%	Spark 1.69%	Spark 3.39%	CSL 4.49%
NZLGFA 1.5% 2029 1.03%	Scentre Group 5.125% 2080 1.92%	Contact Energy 1.43%	Summerset 2.71%	IGO 3.55%
NZLGFA 3.5% 2033 0.91%	Transurban 1.46%	Alphabet 1.11%	Virgin Money 2.09%	Telstra 3.34%
Scentre Group 5.125% 2080 0.90%	Telstra 1.46%	Microsoft 1.09%	Alphabet 2.02%	Charter Hall Retail 2.95%
Transpower 1.735% 2025 0.84%	Goodman 1.29%	Summerset 1.00%	Dr Horton 2.01%	BHP 2.85%
Macquarie Float 2025 0.82%	Meridian 1.26%	Scentre Group 5.125% 2080 0.96%	Microsoft 1.91%	IAG 2.64%
ANZ Bank Float 2024 0.82%	Woolworths 1.26%	Telstra 0.92%	Charter Hall Retail 1.75%	Qantas 2.40%
AusNet Float 2080 0.80%	Getlink 1.03%	Mainfreight 0.91%	HCA Holdings 1.56%	Virgin Money 2.38%
Macquarie Float 2025 0.78%	AusNet Float 2080 1.01%	Amazon 0.85%	Contact Energy 1.55%	Rio Tinto 2.37%

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% 2026 4.75%	Seagate 4.091% 2029 1.52%	Westpac 32 Day CMD 2020 17.78%
Housing NZ 3.36% 2025 2.38%	Kerry Group 0.625% 2029 1.52%	Meridian CD 2021 8.09%
NZLGFA 1.5% 2029 2.27%	American Tower 3.8% 2029 1.47%	SBS CD 2021 7.40%
NZLGFA 3.5% 2033 2.08%	Danaher Corp 0.45% 2028 1.47%	TSB Bank CD 2021 4.93%
Transpower 1.735% 2025 1.93%	McDonald's 3% 2024 1.44%	Fonterra CD 2021 4.93%
Macquarie Float 2025 1.88%	NXP BV 4.3% 2029 1.34%	Auckland Airport CD 2021 4.93%
ANZ Bank Float 2024 1.87%	John Deere 1.75% 2024 1.34%	Port of Tauranga CD 2021 4.93%
Macquarie Float 2025 1.78%	Macquarie 3.052% 2036 1.31%	Genesis CD 2021 4.44%
Westpac 1.439% 2026 1.75%	John Deere 0.70% 2026 1.22%	Mercury CD 2021 3.95%
B & A Bank Float 2025 1.63%	Crown Castle 2.25% 2031 1.22%	Port of Tauranga CD 2021 3.94%

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
Alphabet 3.64%	Fisher & Paykel 7.48%	Sealink Travel 5.39%
Microsoft 3.63%	Mainfreight 4.31%	Collins Foods 4.00%
Amazon 3.32%	Xero 4.02%	IGO 3.78%
Apple 3.22%	CBA 3.59%	Virgin Money 3.46%
Intercontinental Exchange 2.88%	Infratil 3.59%	EML Payments 3.45%
HDFC Bank 2.79%	CSL 3.25%	Seven Group 3.20%
Paypal 2.67%	BHP 2.93%	HUB24 2.91%
TSMC 2.63%	Summerset 2.81%	Lifestyle Communities 2.80%
Charles Schwab 2.23%	NAB 2.80%	IDP Education 2.56%
CSX 2.20%	Ryman Healthcare 2.76%	Universal Store 2.48%

Milford and Milford staff have approximately $30.4 million invested across our Investment Funds as at the end of February 2021.

Ian Robertson
Senior Analyst

Investment Highlight: Infineon Technologies

The secret lives of Semi-Conductors

Imagine living in a world without mobile phones, washing machines or remote controls. The technology that many of us take for granted, is underpinned by a hugely important industry, making exceptionally tiny components.

German company Infineon Technologies is a top-10 global semiconductor manufacturer that designs and manufactures chips that are used in a wide range of automotive, consumer and industrial applications including household appliances, machinery, computing, mobile phones, and renewable energy generation.

Milford has previously invested in Infineon's shares, and in early 2020 we invested in their bond issue to help fund the large acquisition of Cypress Semiconductors.

We like this company as they are a leading provider of chips that manage energy use. This means their chips can help create smaller, lighter, and more energy efficient devices. We expect increasing consumer and regulatory demand for improved energy efficiency to provide long-term growth opportunities for Infineon.

As well as energy conservation, we also like Infineon's exposure to growing applications in industrial connectivity (factory automation, Internet of Things) and the automotive industry. Infineon generates the largest portion of its revenues from automotive products and is the largest chip supplier to the auto industry. We see long-term growth opportunities here as electric vehicle adoption and chip content per vehicle continue to increase, providing structural demand for Infineon's power management systems, sensors and microcontrollers – with applications from heated seats and digital dashboards to assisted driving and radar. Short-term demand also looks well supported, with global vehicle manufacturers currently having to curb production as vehicle demand exceeds chip supply.

While growth is naturally important for our investment, as bond investors we also value Infineon's disciplined focus on its balance sheet. Infineon is committed to its Investment Grade credit rating and improving its credit metrics. It has demonstrated this by raising equity as part of the Cypress transaction, cutting its dividend and actively repaying debt from cash generation.

One thing that helped Infineon maintain its Investment Grade credit rating during the Cypress acquisition was its use of hybrid bonds alongside 'standard' senior bonds. Hybrid bonds have several equity-like features. One of those is they rank behind senior bonds (but ahead of equity) in the event of insolvency. Due to these features, rating agencies can treat hybrids as part equity, providing relief against some of their metrics. Further, to compensate for the same features, hybrids offer higher yields compared to senior bonds of the same company. We currently view the risk-reward of Infineon's hybrids as favourable and have a position in both its senior and hybrid bonds.

While we continue to actively monitor our position against alternate opportunities, we like Infineon's focus on its balance sheet, structural growth drivers, and exposure to the cyclical recovery as vehicle production recovers post-Covid. To date our investment has performed well, with Infineon's improving credit quality and positive outlook reflected in higher bond valuations.

Infineon is just one example of the investment opportunities available from leveraging Milford's global research capability. We believe exposure to global corporate bonds provides access to a larger universe of investment opportunities not as readily available in Australasia. Most importantly, along with greater geographic and sector diversification we believe these opportunities ultimately provide better risk adjusted returns for our investors.