Milford KiwiSaver Plan
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.

Milford Asset Management
Level 28, 48 Shortland Street, Auckland, 1010
Phone: 0800 662 346
Email: Info@milfordasset.com
milfordasset.com

MILFORD
INVESTED IN YOU

KiwiSaver Cash Fund

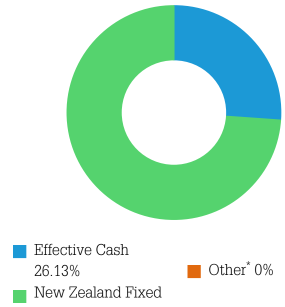
Portfolio Manager: Paul Morris

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.

Actual investment mix [1]



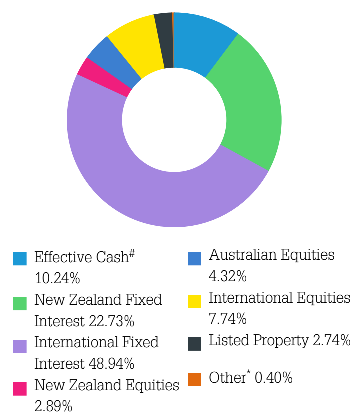
KiwiSaver Conservative Fund

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 4.2% 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.



The actual cash held by the Fund is 9.31%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

*Other includes currency derivatives used to manage foreign exchange risk.

[1] The actual investment mix incorporates the notional exposure value of equity derivatives and credit default swaps, where applicable.

KiwiSaver Moderate Fund

Portfolio Manager: Mark Riggall

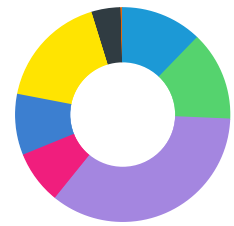
The Fund returned -0.3% in the past month. Bonds typically make up 60% of the Fund's investments, so when bonds fell sharply as they did in February, this becomes a challenge to manage.

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# 12.23%
- New Zealand Fixed Interest 13.45%
- International Fixed Interest 35.11%
- New Zealand Equities^ 8.03%
- Australian Equities 9.20%
- International Equities 17.21%
- Listed Property 4.34%
- Other* 0.43%

The actual cash held by the Fund is 10.09%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

KiwiSaver Balanced Fund

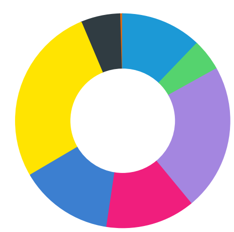
Portfolio Manager: Mark Riggall

The Fund returned 0.3% in the past month, bringing the 1-year return to 11.1%.

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.



- Effective Cash# 12.15%
- New Zealand Fixed Interest 4.78%
- International Fixed Interest 22.11%
- New Zealand Equities† 13.32%
- Australian Equities 14.16%
- International Equities 27.13%
- Listed Property 5.89%
- Other* 0.46%

The actual cash held by the Fund is 8.85%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

^Includes unlisted equity holdings of 0.12% †Includes unlisted equity holdings of 0.24% *Other includes currency derivatives used to manage foreign exchange risk. [1]The actual investment mix incorporates the notional exposure value of equity derivatives and credit default swaps, where applicable.

KiwiSaver Active Growth Fund

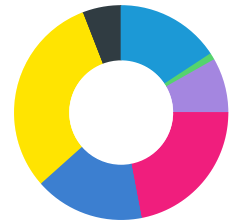
Portfolio Manager: Jonathan Windust

The Fund rose 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.

Actual investment mix [1]



- Effective Cash# 15.78%
- New Zealand Fixed Interest 1.03%
- International Fixed Interest 8.21%
- New Zealand Equities‡ 21.98%
- Australian Equities 16.40%
- International Equities 30.68%
- Listed Property 5.84%
- Other* 0.08%

The actual cash held by the Fund is 9.24%. 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

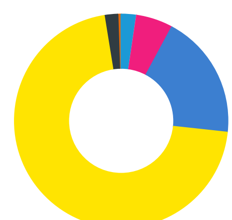
The Fund gained 1.9% in February and in the last year is up 23.9%. February was another volatile month, with fears of higher inflation leading to a sell-off in government bonds, that spilled over to share markets.

Key positive contributors for the month, included US financial services giant Charles Schwab (+20.1%). Charles Schwab's competitive position has been enhanced through recent merger and acquisition activity and the company is a key beneficiary of higher interest rates, as we saw in February. US aggregates company Martin Marietta (+17.4%) rose strongly on expectations of higher infrastructure spending under the new Biden administration. US bank JP Morgan (+14.4%), was another strong performer and under the leadership of CEO Jamie Dimon, has emerged from the pandemic in a strong position.

Detractors from performance included Covid-19 winners, as investors anticipate a successful vaccine rollout. Thermo Fisher Scientific (-11.7%) have benefitted from large scale Covid-19 testing and came under pressure during the month as investors rotated into more cyclical companies. Thermo Fisher is a leader in tools and equipment used in advancing life sciences which is an attractive position long term. Other detractors included technology giants Apple (-8.0%) & Amazon (-3.5%)

Positive contributors in Australasia included commodities giant BHP Group (+12.8%) and Australian listed bank Virgin Money UK (+39.5%). Key detractor included Fisher & Paykel Healthcare (-15.6%) as investors locked in gains.

Despite the volatility, we are reasonably constructive on the outlook for 2021 given the positive vaccine developments and continued supportive policy backdrop. In terms of portfolio activity, we have been adding to companies aligned with our long-term investment themes, as well as cyclically exposed companies, key beneficiaries of the economic recovery.



- Effective Cash# 2.31%
- International Fixed Interest 0.03%
- New Zealand Equities 5.53%
- Australian Equities 18.85%
- International Equities 70.72%
- Listed Property 2.05%
- Other* 0.51%

The actual cash held by the Fund is 8.76%. 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 1.57% *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.

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%	—	—	—	—	1.0034	18.8 M
KiwiSaver Conservative Fund	-0.81%	4.18%	5.58%	6.34%	8.45%	1.9472	176.6 M
KiwiSaver Moderate Fund	-0.30%	—	—	—	—	1.1438	33.4 M
KiwiSaver Balanced Fund	0.29%	11.13%	9.09%	10.07%	10.17%	2.7674	556.2 M
KiwiSaver Active Growth Fund^	2.08%	14.91%	11.14%	12.06%	12.70%	4.6325	2,093.9 M
KiwiSaver Aggressive Fund	1.92%	23.87%	—	—	16.55%	1.2716	348.2 M

For details of how investment performance is calculated, and returns at each PIR please see www.milfordasset.com/funds-performance/view-performance#tab-performance.
Performance figures are after total Fund charges* have been deducted and at 0% PIR.
Please note past performance is not a guarantee of future returns.
*Total Fund charges do not include the $18 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)	-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

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 17.58%	NZLGFA 1.5% 2026 2.13%	NZLGFA 1.5% 2026 1.21%
Meridian CD 2021 8.00%	Housing NZ 3.36% 2025 1.02%	Spark 1.14%
SBS CD 2021 7.32%	NZLGFA 1.5% 2029 1.02%	Contact Energy 1.03%
TSB Bank CD 2021 4.88%	NZLGFA 3.5% 2033 0.89%	Fisher & Paykel 0.99%
Fonterra CD 2021 4.88%	Scentre Group 5.125% 2080 0.88%	Scentre Group 5.125% 2080 0.92%
Auckland Airport CD 2021 4.88%	Transpower 1.735% 2025 0.83%	Alphabet 0.67%
Port of Tauranga CD 2021 4.88%	Macquarie Float 2025 0.81%	Microsoft 0.67%
Genesis CD 2021 4.39%	ANZ Bank Float 2024 0.81%	Telstra 0.66%
Mercury CD 2021 3.90%	AusNet Float 2080 0.79%	AusNet Float 2080 0.62%
Port of Tauranga CD 2021 3.90%	Macquarie Float 2025 0.77%	Summerset 0.58%

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 1.87%	Fisher & Paykel 3.93%	Alphabet 2.35%
Spark 1.70%	Spark 3.39%	Microsoft 2.22%
Contact Energy 1.43%	Summerset 2.72%	Amazon 2.03%
Alphabet 1.13%	Virgin Money 2.10%	HDFC Bank 1.96%
Microsoft 1.10%	Alphabet 2.02%	Intercontinental Exchange 1.96%
Summerset 1.01%	Dr Horton 2.01%	TSMC 1.83%
Scentre Group 5.125% 2080 0.95%	Microsoft 1.92%	Mastercard 1.77%
Mainfreight 0.93%	Charter Hall Retail 1.76%	Martin Marietta 1.76%
Telstra 0.91%	HCA Holdings 1.56%	Amphenol 1.63%
Amazon 0.86%	Contact Energy 1.55%	JPMorgan 1.63%

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 $14.0 million invested in the Milford KiwiSaver Plan 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.

The value of advice

Murray Harris
Head of KiwiSaver & Distribution

Making good investment decisions can be tricky and the process daunting if you don't know where to start. Historically, financial advice has been seen as only for the wealthy. But that's changing.

We want to ensure all clients have the opportunity to receive advice on their Milford KiwiSaver investment. That's why we have developed in-person advice on your KiwiSaver as well as a range of easy-to-use online digital tools that help you take control of your financial future. Taking time to review your KiwiSaver investment now can mean you reach that goal of a first home purchase earlier, or could be the difference of hundreds of thousands of dollars by the time you reach 65.

From simple forecasting of your balance, to personalised financial advice for your KiwiSaver investment, right through to automated withdrawals during your retirement years – you now have powerful tools and advice easily available, regardless of the size of your balance.

What are the different types of KiwiSaver advice available at Milford and how do I know which one is for me?

If you are new to investing or aren't quite sure where to start, getting traditional in-person Milford KiwiSaver advice gives you a chance to speak with one of our team, and discuss your circumstances. Our KiwiSaver Advisers can talk through your KiwiSaver goal and what's needed for you to achieve it. You have the opportunity to ask questions which can help give you a better understanding of what will work for you leading up to retirement or your first home purchase.

Digital Advice is generally suitable for those who still want some guidance and expertise but are happy to be self-guided by the online advice tools. It's more of an independent approach allowing you to plot your future path with the help of our tools.

There's also a third type of advice, a hybrid approach, where you may already know what your investment goal is, and you would just like an adviser to summarise the recommendations and be able to answer any questions you may have. If you would like to receive advice on your Milford KiwiSaver investment please get in touch with one of our KiwiSaver Advisers at kiwisaveradvice@milfordasset.com or on 0800 662 348, or use our online **Digital Advice tools** available in your client portal.

KiwiSaver Digital Advice

Forecast My Balance

Spend My KiwiSaver

Our financial adviser disclosure statements are available on request and free of charge.