Milford KiwiSaver Plan
Monthly Review April 2021

Lift-off

The past year has seen share markets and Milford Funds recover dramatically from the dark days of March 2020. Some of the one-year returns are very high. However, investors should bear in mind that whilst the outlook is rosy, share markets are forward looking and current prices already reflect some investor optimism.

The global economic outlook is built on a foundation of a strong global business sector (particularly manufacturing), coupled with increased household savings and a pending reduction in social distancing restrictions (enabled by accelerating vaccination programs). We are already seeing some impressive data points from the US as we monitor economic performance, and we expect these to continue for the next few months as consumption improves.

The New Zealand and Australian economies are expected to improve at a more sedate pace in comparison. Nonetheless, the fortunes of some companies in both countries are tied to global rather than local developments. For that reason, it pays to focus on the dramatic changes about to happen in the rest of the world.

Share market performance in March reflects optimism over a return to normalcy in both travel and entertainment. Cinema software maker Vista Group and travel software company Serko saw share price gains of 29% and 22% respectively.

Businesses continue to replenish inventories, leading to stronger demand for raw materials. In Australia, steel product producer Bluescope was up 16% in March. Global housing markets also continue to appreciate, including the US. A core global holding is homebuilder DR Horton, its shares were up 16% in March.

Strong global growth is creating inflationary pressures. This is reflected in higher government bond yields (bond prices are falling). We have managed this move well in our diversified funds through reduced exposure to longer-dated bonds. We are wary of further increases in bond yields as this would likely weigh on expensive parts of the share market.

Whilst we remain broadly positive on shares, we are unsure of just how strong or sustainable the current growth impulse is. A fading growth outlook, higher bond yields or increased corporation tax in the US are just some of the issues share investors may have to deal with in the coming months.

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

NZ dollar bank bills, a reflection of interbank funding levels, remain historically low but did continue to incrementally rise from last year's lows. That said, last month's NZ Government housing policy announcement has underpinned market expectations for limited chance of a Reserve Bank of New Zealand (RBNZ) Official Cash Rate (OCR) hike over the next year. This is inline with our base case view for the OCR to remain on hold for the next 12 months at least.

We continue to observe that excess liquidity in the financial system (exacerbated by the RBNZ's Funding for Lending Programme or FLP and Quantitative Easing) means a lot of money will be chasing short-dated assets. That will cap the yields/interest rates available and as we previously discussed likely 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]

- Effective Cash# 23.60%
- Other* 0%
- New Zealand Fixed Interest 76.40%

The actual cash held by the Fund is 23.60%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

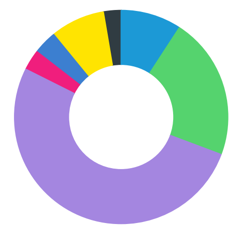
KiwiSaver Conservative Fund

Portfolio Manager: Paul Morris

The Fund returned 0.8% in March, partially recovering weakness seen in the year to date. It is now up 10.6% over 1-year. Performance in the month was driven by its share exposure as bond returns were minimal due to the ongoing headwind of rising market interest rates.

Global shares were the largest contributor. Australian shares were broadly stronger with notable gains from the Fund's property shares and Telstra (its largest Australian share holding). While the aggregate NZ share market was also higher, performance across Fund holdings were mixed; gains for Contact Energy (its largest NZ share holding) but weakness across shares including Meridian Energy, Chorus and Investore Property.

Looking ahead, our base case remains moderately optimistic. Supportive fiscal and monetary policy should boost activity and earnings, allowing share valuations to navigate likely rising interest rates. Overall share exposure is therefore close to long-run neutral. Bond exposure is still predominately to corporate bonds which we believe will outperform government bonds and cash over time. That said, we are acutely aware that inflation is a threat, for bonds but also many shares. This makes active management of the Fund's interest rate exposure critical to cushion returns from rising rates. To that end while market interest rate levels are less extreme, we retain interest rate exposure below the long-run neutral. In aggregate, this approach should underpin a moderate fund return over the medium term although (i) near-term monthly returns could be more volatile and (ii) medium-term returns should moderate relative to recent years.



- Effective Cash# 9.19%
- Australian Equities 3.59%
- New Zealand Fixed Interest 21.52%
- International Equities 8.23%
- International Fixed Interest 51.68%
- Listed Property 2.68%
- New Zealand Equities 3.11%
- Other* 0%

The actual cash held by the Fund is 7.08%. 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 1.6% in March with a one-year return of 16.3%. Investors continue to contemplate the reopening of economies, accelerating economic growth and improvements in company profits. This is manifesting itself in falling bond markets and higher share markets.

The Moderate Fund has a significant neutral exposure to bonds - typically 50-55% of the Fund. To protect this part of the portfolio, we have actively reduced our exposure to long-term bond prices. This has seen the income part of the portfolio deliver a flat performance in the past 3 months despite global bond markets falling around 4%. The remainder of the Fund is typically invested in shares. Due to the improved outlook over the past 6 months we have increased this allocation, helping capture some of the strong performance from share markets over this period.

This is in addition to the careful selection of stocks that is happening within the underlying funds. We have been rotating share holdings into companies that can benefit from improved economic growth, notably financials, semiconductor companies and resources companies. As we look ahead, the improving economic outlook is tempered by already strong investor sentiment, rising interest rates, elevated valuations and the prospect of increased corporation taxes in the US. As a result, we are cautiously bullish and will look to reduce exposure to share markets on further price gains.

Actual investment mix [1]

- Effective Cash[#] 14.25%
- New Zealand Fixed Interest 12.07%
- International Fixed Interest 34.61%
- New Zealand Equities[^] 7.75%
- Australian Equities 9.32%
- International Equities 18.12%
- Listed Property 3.88%
- Other[*] 0%

The actual cash held by the Fund is 12.99%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

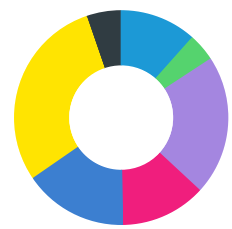
KiwiSaver Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 2.4% in March with a one-year return of 25.2%. Investors continue to contemplate the reopening of economies, accelerating economic growth and improvements in company profits. This is manifesting itself in falling bond markets and higher share markets.

The Balanced Fund has a large neutral exposure to bonds - typically 30-35% of the Fund. To protect this part of the portfolio, we have actively reduced our exposure to long-term bond prices. This has seen the income part of the portfolio deliver a flat performance in the past 3 months despite global bond markets falling around 4%. The remainder of the Fund is typically invested in shares. Due to the improved outlook over the past 6 months, we have increased this to around 64%, helping capture the strong performance from share markets over this period.

This is in addition to the careful selection of stocks that is happening within the underlying funds. We have been rotating our share holdings into companies that can benefit from improved economic growth, notably financials, semiconductor companies and resources companies. As we look ahead, the improving economic outlook is tempered by already strong investor sentiment, rising interest rates, elevated valuations and the prospect of increased corporation taxes in the US. As a result, we are cautiously bullish and will look to reduce exposure to share markets on further price gains.



- Effective Cash[#] 11.60%
- New Zealand Fixed Interest 4.19%
- International Fixed Interest 21.10%
- New Zealand Equities[†] 12.94%
- Australian Equities 15.56%
- International Equities 29.32%
- Listed Property 5.29%
- Other[*] 0%

The actual cash held by the Fund is 10.96%. 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 0.11% [†] Includes unlisted equity holdings of 0.23% [*] 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

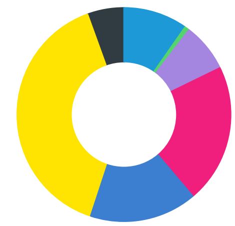
Portfolio Manager: Jonathan Windust

The Fund rose 3.3% in March with good returns from share markets; global (+4.3%), Australia (+2.5%) and New Zealand (+2.9%). Share markets focused on the positive economic outlook supported by low rates and high levels of government spending. The US economy is forecast to grow around 6.0% in 2021, the strongest growth since 1984. The Fund performed in line with market returns for the month.

Key positives during the month were US companies exposed to consumer spending and the housing market including; Lowes (+19.0%), Home Depot (+18.9%) and DR Horton (+15.9%). Home Depot and Lowes sell home improvement and building materials and are benefitting from US government stimulus checks paid during the month and high levels of personal savings. DR Horton is the largest homebuilder in the US and is benefitting from a positive housing market. During the month the Fund added to holdings in CNH Industrial the producer of agricultural, construction and industrial equipment; including Case and New Holland tractors. We believe the CNH is attractively valued and well positioned to benefit from increased spending on farm equipment due to the substantial rises in many commodity prices.

The outlook for shares is supported by the prospect of strong economic growth, improvements in company earnings, continued low short-term 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 and company taxes. On balance we retain a positive outlook for shares but given the high levels of optimism, we remain selective in our investments and look to avoid over inflated companies and those sensitive to rising long-term interest rates.

Actual investment mix [1]



The actual cash held by the Fund is 5.33%. 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

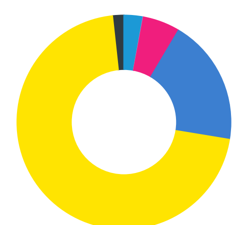
Portfolio Manager: Stephen Johnston

The Fund gained 2.9% in March and is up 42.5% over the last year.

Key positive contributors for the month, included the world's largest home improvement retailer, Home Depot (+18.9%). We are expecting a post pandemic consumer spending boom in the US as the economy reopens, and Home Depot is a key beneficiary. DR Horton, the largest home builder in the US continued its strong run (+15.9%), as new home demand is booming, and inventory levels remain very tight. We think the supply/demand imbalance could take years to address and will support pricing power for homebuilders. Another positive contributor was HCA (+9.8%), the largest & best in class US hospital operator, that will likely see a boost in patient volumes as the vaccine rollout continues.

Detractors from performance included e-commerce company Shopify (-13.6%), as investors rotated into recovery plays. Despite the short-term weakness, Shopify remains one of the faster growing companies in the portfolio and we remain excited about its long-term prospects as their software is easy to use and has a wide variety of built-in features that can be added as companies grow. Nintendo also underperformed (-2.9%), despite strong momentum in hardware and software shipments.

Positive contributors in Australasia included Fisher & Paykel Healthcare (+9.7%) and Xero (+6.8%), bouncing back after a weak February. Bank of Queensland was another strong contributor with the Fund participating in a discounted capital raising. Key detractors included commodity plays IGO limited (-10.7%) & BHP Group (-4.3%) as investors locked in recent gains. Despite the volatile start to 2021, 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.



The actual cash held by the Fund is 9.60%. 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 1.54% *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%	0.36%	–	–	–	1.0037	18.6 M
KiwiSaver Conservative Fund	0.79%	10.55%	5.86%	6.19%	8.46%	1.9623	172.2 M
KiwiSaver Moderate Fund	1.55%	16.31%	–	–	–	1.1612	35.7 M
KiwiSaver Balanced Fund	2.37%	25.19%	10.11%	9.84%	10.33%	2.8320	591.5 M
KiwiSaver Active Growth Fund^	3.26%	34.81%	12.30%	11.98%	12.88%	4.7803	2,222.9 M
KiwiSaver Aggressive Fund	2.91%	42.46%	–	–	17.65%	1.3084	388.4 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)	2.92%	28.94%	15.66%	14.32%	14.86%
S&P/ASX 200 Accumulation Index (AUD)	2.44%	37.47%	9.65%	10.25%	7.70%
S&P/ASX 200 Accumulation Index (NZD)	4.60%	44.87%	10.44%	9.83%	7.97%
MSCI World Index (local currency)*	4.21%	50.74%	13.26%	13.35%	10.69%
MSCI World Index (NZD)*	7.27%	30.39%	13.93%	13.16%	13.14%
S&P/NZX 90-Day Bank Bill Rate	0.03%	0.33%	1.29%	1.63%	2.13%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	-0.39%	1.50%	4.32%	3.29%	3.75%
S&P/NZX NZ Government Bond Index	0.71%	-1.57%	3.62%	3.27%	4.60%

*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 17.39%	NZLGFA 1.5% 2026 2.09%	NZLGFA 1.5% 2026 1.13%
Meridian CD 2021 7.91%	Housing NZ 3.36% 2025 1.00%	Contact Energy 1.07%
SBS CD 2021 7.24%	NZLGFA 1.5% 2029 0.96%	Spark 1.04%
Auckland Airport CD 2021 4.82%	NZLGFA 3.5% 2033 0.88%	Fisher & Paykel 0.97%
Port of Tauranga CD 2021 4.82%	Transpower 1.735% 2025 0.82%	Telstra 0.80%
TSB Bank CD 2021 4.82%	ANZ Bank Float 2024 0.81%	Scentre Group 5.125% 2080 0.79%
TSB Bank CD 2021 4.82%	Macquarie Float 2025 0.81%	NAB 0.77%
Genesis CD 2021 4.34%	Scentre Group 5.125% 2080 0.80%	Alphabet 0.69%
Port of Tauranga CD 2021 3.86%	John Deere 1.75% 2024 0.77%	Microsoft 0.68%
Spark CD 2021 3.86%	Charter Hall 2.787% 2031 0.77%	Meridian 0.55%

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 1.84%	Fisher & Paykel 3.97%	Alphabet 2.50%
Spark 1.57%	Spark 3.31%	Microsoft 2.46%
Contact Energy 1.53%	Virgin Money 2.75%	Mastercard 1.92%
Alphabet 1.17%	Summerset 2.38%	Intercontinental Exchange 1.90%
Microsoft 1.15%	Alphabet 2.24%	TSMC 1.85%
Telstra 1.09%	Microsoft 2.24%	Amazon 1.84%
NAB 1.09%	Dr Horton 1.97%	Home Depot 1.80%
Mainfreight 0.93%	HCA Holdings 1.92%	HDFC Bank 1.76%
Summerset 0.89%	Contact Energy 1.91%	Dr Horton 1.71%
Scentre Group 5.125% 2080 0.84%	Lowe's 1.91%	Visa 1.70%

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 $14.4 million invested in the Milford KiwiSaver Plan as at the end of March 2021.

Michael Higgins
Portfolio Manager

Investment Highlight: SeaLink Travel Group

Don't judge a book by its cover!

SeaLink is Australia's largest multi-modal transport service provider, with capabilities across ferry, bus and light rail. Our investment in SeaLink has now returned around 150% over the past 18 months and was one of our best performing companies in 2020. I'm sure you're asking, how did a tourism exposed ferry business deliver such an extraordinary performance during a pandemic, and devastating Australian bushfires? Let me tell you why you can't always judge a book by its cover!

Prior to September 2019, the majority of SeaLink's revenue was derived from ferry operations across a number of key tourism assets in Australia. These include stunning destinations like Kangaroo Island (South Australia), Fraser Island and North Stradbroke Island in Queensland. The business however was relatively mature and lacked growth options.

In October 2019, SeaLink announced the acquisition of Transit Systems Group (TSG) and we participated in the equity raise at $3.50 per share. I knew TSG well as they manage the inner-west region of Sydney and operate the bus I take home every evening after work! TSG is Australia's largest private operator of metropolitan public bus services, with international operations largest private operator of metropolitan public bus services, with international operations in London and Singapore. The acquisition was effectively a back door listing of a much larger business – SeaLink generated revenues of $251m in their 2019 financial year and are now expected to reach $1.1bn in 2021.

The acquisition of TSG transformed SeaLink. It expanded the business geographically, introduced new end-markets and verticals, transitioned a lot of their revenue from transactional to contracted and most importantly, added growth options. The revenue profile of the group was reshaped from being 67% exposed to tourism to 15% tourism/85% commuter. Commuter contracts are long-term in nature, with significant exposure to trusted government counterparts. Importantly, these contracts hold 'no fare box risk' on passenger patronage, which means revenue is based purely on frequency of bus routes and not the number of passengers using the service. The revenue model is also surprisingly capital light for a bus business given state governments retain ownership of the assets to ensure sufficient competition during retendering.

There was a healthy degree of market scepticism around the deal at the time given 33% of TSG's contracted revenue expired within 6 months. We were comforted by managements impressive retention track record over 24 years of 20 successful tenders and renewals with only two non-renewals. We also spoke with a number of industry participants on the ground in Sydney/Melbourne which confirmed that TSG were an exceptional operator with an impressive management team.

It was smooth sailing (pun intended) for a few months as the market digested the reshaped business. However, in December 2019, Australia was devastated by bushfires. The hit to tourism impacted the SeaLink share price and we took the opportunity to double our position. Choppy conditions didn't end there with COVID-19 border closures hitting in late-March 2020. SeaLink shares were sold-off sharply as investors presumed i) it was primarily still a tourism business, and ii) an expected sharp fall in patronage impacting revenues across key bus regions in Australia. We knew that despite retaining the old name SeaLink, the new business was more exposed to defensive commuter bus contracts, and furthermore that they held no 'fare box risk'. If anything, in our view SeaLink would be a beneficiary of COVID as more buses would likely be required on routes to ensure social distancing. We again doubled our position.

SeaLink has an extensive pipeline of opportunities in domestic and international markets. We think SeaLink is in the box seat to win ~$400m of additional annual revenue over the next 6 months following the privatisation of bus networks in New South Wales and Victoria with the tender process currently underway. They also have the balance sheet strength to support additional acquisition opportunities in new and existing key markets.

Disclaimer: Milford is an active manger with views and portfolio positions subject to change. This article is intended to provide general information only. It does not take into account your investment needs or personal circumstances. It is not intended to be viewed as investment or financial advice. Should you require financial advice you should always speak to an Financial Adviser. Past performance is not a guarantee of future performance.

What a difference a year makes

Murray Harris
Head of KiwiSaver & Distribution

This time last year we were locked down in our homes, wondering what the future holds as the world grappled with a virus we have become all too familiar with now. Financial markets do not like uncertainty and had reacted violently to the fast-spreading virus, lockdowns across the world and the uncertain future for the global economy.

After reaching new highs during February 2020, share markets across Europe, the US and locally dropped 30 to 40% to reach a low point on the 23rd of March and we reported negative returns on your KiwiSaver Funds of between -5% and -12% for the month and returns between -2.1% and +1.75% for the 1 year to the end of March 2020.

Twelve months later we are still dealing with the disruptive and sometimes distressing impacts of the global pandemic. However, financial markets have recovered extremely well, supported by unprecedented central bank support and your KiwiSaver Funds have benefitted as a result. As you will have seen on page 5 of this report, the Milford KiwiSaver Funds (excluding the Cash Fund) have provided returns of between 0.8% and 3.3% in March 2021 and 10.6% and 42.5% for the past year.

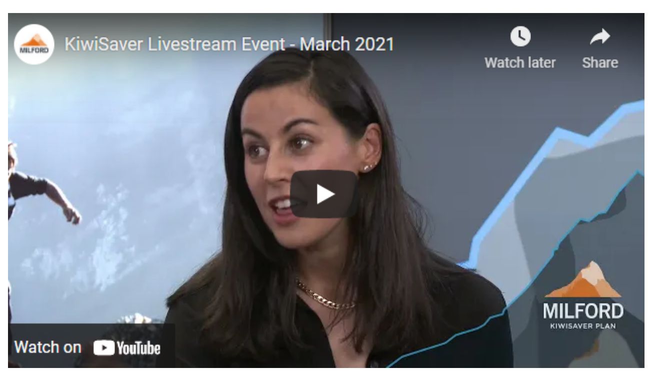
The lesson from this is, members who stayed the course and stuck to their long-term investment strategy rather than reacting to market movements a year ago have been rewarded for their resilience. For most people, KiwiSaver is a long-term investment and should be left to ride out the ups and downs of markets. If you are not sure what your appetite for risk is, or whether you are in the right KiwiSaver fund you can use our KiwiSaver Digital Advice tools in the client portal.

Milford KiwiSaver Digital Advice now available before you join

We are excited to launch the availability of our KiwiSaver Digital Advice tool to anyone who is interested in discovering their risk profile and selecting the right Milford KiwiSaver Fund and contribution level to meet their retirement goals. You may have family, friends or colleagues who are not Milford KiwiSaver members but are interested in using the tool. They can access the tool easily via our website.

Watch our recent Livestream event

We recently hosted a Livestream event with Stephen Johnston, Portfolio Manager of the KiwiSaver Aggressive Fund, Dr Deborah Lambie, one of our analysts on the Fund and Eachann Bruce, one of our KiwiSaver Advisers. Thank you to those members who joined us online to watch live. If you weren't able to join us, you can watch a recording of the event on the Insights page on our website.



Disclaimer: The Milford Monthly Review has been prepared by Milford Funds Limited. It is based on information believed to be accurate and reliable although no guarantee can be given that this is the case. No reproduction of any material either in part or in full is permitted without prior permission. For more information about the Funds please refer to the Product Disclosure Statement or the latest Quarterly Fund Update.