Milford KiwiSaver Plan
Monthly Review May 2021

Goldilocks economy – conditions just right for growth

Global share markets continue to drift higher, fuelled by a potent cocktail of strong economic growth, robust company profits and a moderation in global bond yields. Milford's Funds delivered strong performance in the month.

The global economy is accelerating out of the COVID induced recession, led by the US as rapid vaccination programmes enable a reopening of the economy. Other economies will follow suit over the coming months as uneven vaccine rollouts across countries create staggered reopening schedules.

Forward looking share markets have largely factored in these developments. Nonetheless, first quarter profit announcements from US companies have soundly exceeded initial estimates, illustrating that companies are harnessing this economic activity well.

Core holdings of global companies such as Google and DR Horton performed well in the month (up 16.5% and 10.3% respectively). Google reported revenue rising 35% on the back of strong advertising spending. DR Horton, the largest US homebuilder, is enjoying an extremely strong US housing market.

The New Zealand market remains a broad underperformer, but stock selection has delivered outperformance for Milford's Funds. We have maintained significant holdings in Fisher & Paykel Healthcare, convinced that COVID-19 represents a multi-year opportunity for the company. The explosion of cases in India in the last month is a timely reminder that the pandemic will be enduring, this realisation has seen the stock price rise 12% last month. Our decision to largely exit a2 Milk last year also helped relative performance recently, the stock has fallen by around 63% in the past 9 months.

Government bond prices stabilised in April after their steep falls so far this year. We continue to think government bonds (particularly in the US) look unattractive at current yields. Strong growth and inflation data in April increased our conviction on this front and we remain wary of further spikes in bond yields that could disrupt share markets.

In aggregate, shares are moderately expensive and there are pockets of overvaluation. This, as well as the risk of higher bond yields, should act as a broad constraint on share prices going forward. Despite this, the supportive backdrop is a fertile environment to find and invest in good companies with attractive risk reward.

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: Travis Murdoch

NZ dollar bank bills, a reflection of interbank funding levels, remain historically low but have continued their incremental drift higher since the lows in October. The Reserve Bank of New Zealand (RBNZ) kept the Official Cash Rate (OCR) on hold at 0.25% at its Monetary Policy Review (MPR) in April.

This is in line with our base 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 is still chasing short-dated assets. That is likely to cap the yields/interest rates available and as we previously discussed, potentially 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# 29.11%
- New Zealand Fixed Interest 70.89%
- Other* 0%

The actual cash held by the Fund is 29.11%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

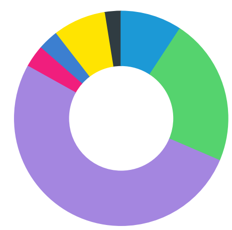
KiwiSaver Conservative Fund

Portfolio Manager: Paul Morris

The Fund enjoyed a strong month in April, up 0.8%, with broad gains across both its bond and share exposures. Bonds were supported by a fall in market interest rates, offering some respite away from the headwind of rising rates they have been facing since the fourth quarter of last year. The Fund's predominate exposure to corporate bonds also outperformed government bonds with decent contributions from global and Australasian holdings.

This more supportive interest rate backdrop also helped the Fund's income-oriented shares, including notable gains within the Fund's Australian property shares. Global shares posted another strong month helped by what has thus far been an impressive reporting season. Looking forward, ongoing supportive central bank and government policy combined with reopening economies should support shares, however returns may moderate as valuations are high. Therefore, given the Fund's conservative risk profile we deemed it prudent to use ongoing strength to reduce some share exposure and added some downside protection (via listed equity index options) which should provide a modicum of cushioning to returns from any possible broad fall in share markets.

On the interest rate outlook, our base case remains for a renewed gradual move higher in market interest rates. This underpins the rationale for continuing our slightly cautious outlook for bonds and therefore we retain interest rate exposure below long run neutral. In aggregate however, we believe Fund positioning should underpin moderate medium-term returns but as stated before 1) near-term returns could be more volatile while 2) medium-term returns are likely to moderate relative to recent years.



- Effective Cash# 9.28%
- New Zealand Fixed Interest 22.16%
- International Fixed Interest 51.62%
- New Zealand Equities 3.34%
- Australian Equities 3.08%
- International Equities 7.97%
- Listed Property 2.55%
- Other* 0%

The actual cash held by the Fund is 5.88%. 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

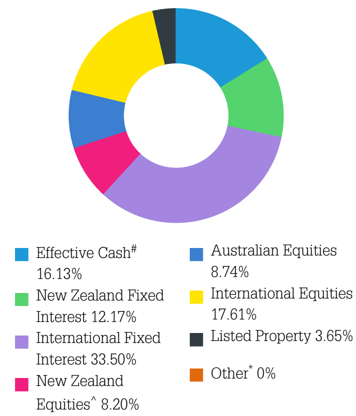
Portfolio Manager: Mark Riggall

The Fund returned 1.6% in April with a one-year return of 13.8%. The Fund saw broad gains across both its bond and share exposures. Bonds were supported by a fall in market interest rates, offering some respite away from the headwind of rising rates they have been facing since the fourth quarter of last year.

The Fund's predominate exposure to corporate bonds also outperformed government bonds with decent contributions from global and Australasian holdings. The Fund's shares were also strong, fuelled by strong profit announcements from global companies. Good returns in the month from Fisher & Paykel Healthcare, Google and DR Horton (the largest US homebuilder) helped returns.

Shares continue to be the most attractive asset class, although high valuations mean that broad returns from here could be muted. The biggest risk is a further rise in bond yields in response to surging inflation. The Fund has taken steps to protect against this outcome through some reduced bond exposures as well as some downside equity protection. The backdrop is a good one to invest in, and we continue to find enough attractively valued companies to remain fully invested.

Actual investment mix[1]



\# The actual cash held by the Fund is 14.51%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

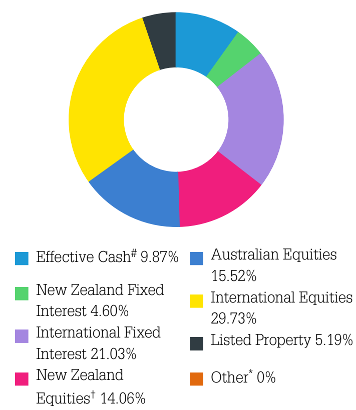
KiwiSaver Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 2.5% in April with a one-year return of 22.0%. Global share markets continue to move higher, fuelled by strong profit growth and a moderation in bond yields. The Fund's increased exposure to shares is helping capture that performance, in addition to some judicious stock selection within the underlying Funds. For example, strong performance from top 20 holdings such as Fisher & Paykel Healthcare, Microsoft and DR Horton (the largest US homebuilder) helped deliver strong returns for the Fund last month.

The investment backdrop remains favourable, with booming global economic growth and strong profits from companies. Shares continue to be the most attractive asset class, although high valuations mean that broad returns from here could be muted. The biggest risk is a further rise in bond yields in response to surging inflation. The Fund is protecting against this outcome through reduced exposure to bond investments.

The share portfolio is fully invested, reflecting the opportunities we see in finding good companies to own. Some portfolio protection strategies have been initiated, such as increasing cash and derivative insurance strategies. With some parts of the share market appearing frothy, this caution should help smooth returns if we see volatility over the next few months.



\# The actual cash held by the Fund is 9.57%. 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 0.08% †Includes unlisted equity holdings of 0.17% *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

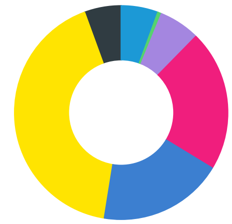
Portfolio Manager: Jonathan Windust

The Fund returned 3.3% in April with strong returns from share market indices; global +4.0%, Australia +3.5% and New Zealand +1.4%. Share markets benefitted from continued positive economic data, low interest rates, government spending and very strong company earnings. The Fund performed strongly boosted by strong company selection.

Key positives during the month included Fisher & Paykel Healthcare (+12.0%), Google (+16.5%) and Australian resource companies IGO Limited (+19.3%) and Rio Tinto (+9.4%). Resource companies are benefitting from strong economic activity which is boosting commodity prices and helping companies deliver strong cash flows. Google rose after a strong earnings result with revenue rising 35% and profits by 163%. Google is benefitting from strong demand for search advertising, increasing brand advertising on YouTube and strong momentum in cloud computing. We continue to believe Google remains attractively valued given its strong market positions and growth prospects. During the month the Fund added to holdings in Contact Energy, which was under pressure, taking advantage of passive selling after its index weight was reduced. Contact provides a steady and relatively healthy dividend yield.

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 headwinds for markets are relatively high 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 high levels of optimism remain selective in our investments and look to avoid companies with inflated valuations.

Actual investment mix [1]



- Effective Cash# 5.59%
- New Zealand Fixed Interest 0.58%
- International Fixed Interest 6.19%
- New Zealand Equities‡ 21.33%
- Australian Equities 18.84%
- International Equities 41.89%
- Listed Property 5.58%
- Other* 0%

The actual cash held by the Fund is 5.95%. 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

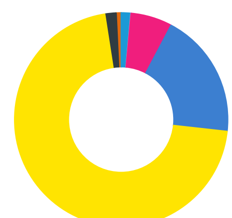
The Fund gained 4.5% in April. Global share markets continued their positive tone, as the vaccine rollout accelerated in some countries and global economic growth gathers steam.

Alphabet (+16.5%), the parent company of YouTube and Google was a key contributor for the month. Latest results show advertising spend is returning as economies rebound around the world. Another key contributor was US technology giant Amazon (+12.1%). Amazon released very impressive results, with first quarter earnings trebling, as the e-commerce boom continues. Robotic surgery market leader Intuitive Surgical (+17.1%) also performed well, with recent results confirming that placements of their da Vinci robots exceeded expectations and procedure growth accelerated.

Detractors from performance included Indian exposure HDFC Bank (-9.5%), as COVID-19 cases surged in India. While the near term will remain challenging, we think management has handled the crisis better than peers and medium term, we expect continued market share gains. Agriculture machinery company CNH Industrial (-4.3%), and semiconductor company TSMC (-1.3%), also contributed negatively for the month.

The biggest positive contributor in Australasia was Fisher & Paykel Healthcare (+12.0%), a strong result, after gaining almost 10% in March. Key detractors included industrial company Seven Group (-4.5%) and former market darling a2 Milk (-11.3%).

We remain 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# 1.44%
- International Fixed Interest 0.06%
- New Zealand Equities 6.25%
- Australian Equities 19.01%
- International Equities 70.78%
- Listed Property 1.72%
- Other* 0.74%

The actual cash held by the Fund is 8.88%. 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 1.01% *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	0.05%	0.37%	—	—	0.38%	1.0042	15.1 M
KiwiSaver Conservative Fund	0.82%	8.70%	5.98%	6.19%	8.48%	1.9783	169.2 M
KiwiSaver Moderate Fund	1.61%	13.82%	—	—	16.43%	1.1799	38.6 M
KiwiSaver Balanced Fund	2.47%	22.00%	10.45%	10.13%	10.49%	2.9017	617.1 M
KiwiSaver Active Growth Fund^	3.29%	31.21%	12.97%	12.44%	13.07%	4.9371	2,339.9 M
KiwiSaver Aggressive Fund	4.52%	36.22%	—	—	19.75%	1.3675	441.8 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)	1.36%	21.57%	15.60%	14.39%	14.76%
S&P/ASX 200 Accumulation Index (AUD)	3.47%	30.76%	9.50%	10.27%	7.95%
S&P/ASX 200 Accumulation Index (NZD)	2.46%	32.64%	9.68%	9.97%	7.93%
MSCI World Index (local currency)*	4.04%	41.92%	14.03%	14.06%	11.20%
MSCI World Index (NZD)*	2.15%	24.95%	13.41%	13.45%	13.16%
S&P/NZX 90-Day Bank Bill Rate	0.03%	0.29%	1.25%	1.60%	2.10%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	0.26%	0.15%	4.54%	3.31%	3.68%
S&P/NZX NZ Government Bond Index	0.78%	-3.43%	3.96%	3.35%	4.59%

*With net dividends reinvested

Milford KiwiSaver plan is the proud winner of multiple awards:

2018 | 2019 | 2020 consumer. PEOPLE'S CHOICE Milford KiwiSaver Plan

CANSTAR PROVIDER OF THE YEAR KIWISAVER 2020

CANSTAR OUTSTANDING VALUE KIWISAVER 2020

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 18.93%	NZLGFA 1.5% 2026 2.10%	Contact Energy 1.43%
Chorus 4.12% 2021 6.33%	Housing NZ 3.36% 2025 1.01%	NZLGFA 1.5% 2026 1.10%
TSB Bank CD 2021 5.25%	NZLGFA 1.5% 2029 0.97%	Spark 1.06%
TSB Bank CD 2021 5.25%	NZLGFA 3.5% 2033 0.88%	Fisher & Paykel 1.00%
SBS CD 2021 5.24%	Transpower 1.735% 2025 0.83%	Scentre Group 5.125% 2080 0.74%
Genesis CD 2021 4.72%	ANZ Bank Float 2024 0.80%	Telstra 0.74%
Port of Tauranga CD 2021 4.20%	Scentre Group 5.125% 2080 0.79%	NAB 0.74%
Spark CD 2021 4.20%	Contact Energy 0.78%	Meridian 0.72%
Wellington Airport CD 2021 3.67%	Charter Hall 2.787% 2031 0.77%	Alphabet 0.70%
Mercury CD 2021 3.15%	John Deere 1.75% 2024 0.76%	Microsoft 0.64%

Note: Fixed interest securities are reported in the following format: Issuer name, interest (coupon) rate, maturity year, size of fund holding (as % of total portfolio).

KiwiSaver Balanced Fund	KiwiSaver Active Growth Fund	KiwiSaver Aggressive Fund
Contact Energy 2.26%	Fisher & Paykel 3.79%	Alphabet 2.66%
Fisher & Paykel 1.94%	Contact Energy 3.26%	Microsoft 2.37%
Spark 1.64%	Spark 3.17%	Mastercard 2.06%
Alphabet 1.22%	Virgin Money 2.74%	Amazon 1.90%
Microsoft 1.12%	Alphabet 2.41%	Intercontinental Exchange 1.80%
NAB 1.08%	HCA Holdings 2.30%	Charles Schwab 1.77%
Meridian 1.05%	Summerset 2.29%	Home Depot 1.76%
Telstra 1.03%	Microsoft 2.22%	Visa 1.71%
Mainfreight 0.98%	Dr Horton 2.01%	TSMC 1.70%
Summerset 0.94%	Lowe's 1.83%	Dr Horton 1.69%

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 $14.9 million invested in the Milford KiwiSaver Plan as at the end of April 2021.

Stephanie Batchelor
Senior Analyst

Investment Highlight - LVMH

Building brands for over 30 years

Louis Vuitton Moët Hennessy, or LVMH, is the world's largest luxury goods company, housing 75 different brands across key categories of the luxury market: Fashion & Leather (Louis Vuitton, Christian Dior), Wine & Spirits (Moët & Chandon, Hennessy, even local New Zealand winemaker Cloudy Bay), Perfume & Cosmetics (Guerlain, Fenty), Watches & Jewellery (TAG Heuer, Bvlgari), and Selective Retailing (DFS, Sephora). LVMH also recently acquired the jeweller Tiffany & Co., famous for its diamond rings and blue boxes.

For many years, LVMH has benefitted from the rising wealth of Chinese consumers, who made up approximately one third of global luxury purchases prior to the pandemic and are expected to make up 50% by 2025[1]. The majority of these purchases were made during trips overseas, in shopping destinations such as Paris, Milan, London or Hong Kong.

Given the luxury sector's reliance on consumers purchasing while travelling, COVID-19 was a perfect storm. As countries went into lockdown, retail stores closed, air travel fell by as much as 96%[2] and consumer confidence plummeted. LVMH was not immune. Revenue of the largest segment, Fashion & Leather, fell 10% and 37% in the first two quarters of 2020. However, the impact was short-lived, and by the third and fourth quarters, revenue growth had recovered to +12% and +18%. The segment then delivered revenue growth of 52% in the most recent quarter, and remarkably, was up 37% versus pre-pandemic levels.

Several elements have contributed to LVMH's success in navigating the pandemic, but more importantly, have contributed to LVMH's longer-term success throughout its 30+ year history:

- LVMH brands draw on **rich histories and heritage** dating back over 150 years (Louis Vuitton was founded in 1854), which can't be replicated by a new brand. While focusing on high-quality traditional craftsmanship, LVMH also ensures **creativity and innovation** to remain current and desirable. During COVID-19, it was very quickly able to transition to a primarily digital service, where WeChat and WhatsApp became the real sales channels. Customers could speak directly with sales assistants from their living rooms and have a personal video walkthrough of the collection.
- Over the last 20 years, LVMH has acquired companies to **vertically integrate its supply chain** and develop control over the manufacturing of its goods. This gave LVMH flexibility during the pandemic to ramp supply up or down in response to consumer demand and changing trends. It also enabled LVMH to quickly convert its perfume factories to churn out hand sanitiser within 72 hours of the French government's call for help, donating 12 tons of gel to healthcare workers across 39 hospitals within one week.
- Rather than relying on wholesale distributors to stock its brands, **LVMH prefers to sell via its own stores** (either physical or online) where it can maintain a high-end experience, own the customer relationship, and eliminate the risk of discounting to clear product. In fact, Louis Vuitton has **a strict 'no discounts' policy**, to protect brand image. Impressively, the brand was actually able to raise prices during the pandemic – a Neverfull MM Monogram bag which cost US$1,320 in October 2019 now costs US $1,540, an increase of 17%.
- LVMH's **scale gave it the ability to negotiate rent reductions**, while at the same time **leveraging its market-leading profitability to invest in digital marketing and social media**. As a result, LVMH was able to take the bulk of customers' attention at a time when smaller peers were cutting back on marketing to protect their financials. As soon as consumers were ready to spend, LVMH brands were at the top of their shopping lists.

While LVMH's Fashion & Leather segment moves from strength to strength, some segments of LVMH remain below pre-pandemic levels. As the vaccine rollout continues, countries re-open, and travel slowly resumes, these segments will be beneficiaries of the recovery.

LVMH shares have performed well over time, up 81% over one year and 368% over five years[3]. We believe, however, the longer term opportunity is not fully reflected in the current share price. We remain confident in LVMH's ability to maintain desirability of its heritage brands through creativity and innovation, and benefit from the rising wealth of Chinese consumers, whether at home, or abroad. If there was ever any question of the value of brand building, you need look no further than LVMH. For over 30 years now, consumers have spoken with their wallets.

1. https://theconversation.com/how-the-decline-in-chinese-tourists-around-the-world-has-hit-the-luxury-sector-145267
2. https://edition.cnn.com/2020/04/09/politics/airline-passengers-decline/index.html 3. As at 30 April 2021.

No such thing as 'free money'… or is there?

Each year, KiwiSaver members have the opportunity to receive a government top up of up to $521.43. Last year the Government made contributions of $847 million[1] towards KiwiSaver members' retirement savings. However, this represented only 60% of members making the most of the benefit available.

Don't miss out on your Government Contribution to help boost your KiwiSaver investment. Every dollar counts! It is worth encouraging your friends and family to do the same, saving more now will lead to a better retirement outcome in the future.

Eachann Bruce
Financial Adviser

So how do you get it?

To be eligible, you must be:

- Aged 18 years or older and not yet eligible for retirement withdrawals[2], and
- Live mainly in New Zealand[3]

You should receive the full Government Contribution if you've been in KiwiSaver for the full year (1 July to 30 June) and have contributed at least $1042.86. If you have contributed less than $1042.86 the Government will still match what you have contributed with 50 cents for every dollar you've contributed. If you haven't been a KiwiSaver member for the full year you could still get a proportional top up from the government.

Please note, the Government Contribution only applies to your own contributions i.e. employee contributions and any voluntary contributions you have made. It does not apply to your employer's contributions.

Check to see if you have contributed enough

Log into your Milford Client Portal and use our Government Contributions Calculator.

Alternatively, you can check by logging into your MyIR account at www.ird.govt.nz/kiwisaver. Go to "View transactions" and filter on transaction type "Deductions from salary/wages" and the date range from 01/07/2020 to 30/06/2021 to see if you've contributed at least $1042.86

How to top up:

Make a payment or set up a Direct Debit – login to your client portal, then navigate through to Payments & Transactions to make a payment.

You may also want to consider increasing your employee contribution rate to ensure you've made sufficient contributions for future years.

When will I receive the Government Contribution?

We'll claim any Government Contribution on your behalf, and you can expect payment into your KiwiSaver account around late July. If you have contributed enough, you don't have to do anything else. If your contributions are less than $1042.86 consider topping up your account.

It's worth taking a few minutes now to check if you've contributed enough. Don't be like some of the thousands of members who missed out on their full top up last year.

1. IRD KiwiSaver Statistics (https://www.ird.govt.nz/about-us/tax-statistics/kiwisaver)
2. If you joined KiwiSaver before 1 July 2019 and were aged between 60 and 64 inclusive and haven't yet made a retirement withdrawal, you will also be eligible. If you are unsure, please contact us on info@milfordasset.com or 0800 662 346
3. There are exceptions for government employees who are serving outside New Zealand or persons working overseas as volunteers.