Milford Investment Funds
Monthly Review June 2021

What next?

Global share markets were marginally higher in May whilst NZ shares were a notable laggard.

Investors are forward looking, with a constant refrain of ‘what next?’. In that context, many themes that we have followed over the last 6 months or so have already played out and we are searching for our own ‘what next?’. We’ve had the re-opening of global economies; economic growth has boomed and inflation is surging. Share markets have already performed well, and companies previously impacted by COVID-19 restrictions are recovering. Meanwhile, bond markets have settled, i.e. not collapsed in the face of rising inflation – removing, for now, one of our key concerns.

New Zealand’s weaker performance last month can be attributed entirely to the performance of just two companies. a2 Milk’s woes continued in May with the stock down 23.4%. Fisher & Paykel Healthcare fell after disappointing investors with its lack of clarity around the outlook; we continue to like the medium-term story for Fisher & Paykel Healthcare and remain positioned accordingly.

Meanwhile, Australian shares performed well last month, led by the banks. Gold stocks also did well with key holding Evolution Mining up 16.8% in May.

Our expectation is that we have another few months of global economic boom as more economies around the world reopen. Beyond that, the key question is how sustainable the growth and inflation impulses are. There is certainly plenty of fuel in the tanks; global household savings are elevated, government policies are supportive and interest rates remain low.

For equities, both bullish and bearish arguments can continue to be made. The supportive backdrop and lack of attractive alternatives (e.g. bonds/cash) mean that equities remain the only game in town. Against that, a peaking in growth and fiscal (i.e. government) policy support and the threat of tighter monetary policy (rising interest rates) mean that risks are rising. The most likely outcome is a mildly upward trajectory punctuated by bouts of volatility.

In the meantime, our focus remains on finding attractively valued companies. On this front we still have plenty of good ideas to invest in. This allows us to remain invested whilst maintaining flexibility to deal with what comes next.

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Conservative Fund

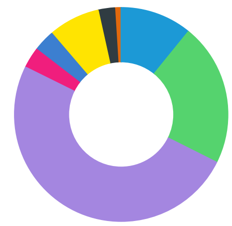
Portfolio Manager: Paul Morris

Performance across the Fund's holdings was mixed in May. There were generally positive contributions from Australasian shares but many of the Fund's global shares were moderately weaker. Performance across bond holdings was also varied. Global and Australian investment grade rated (lower risk) bonds generally delivered positive returns but many of the Fund's New Zealand bonds were weaker after the Reserve Bank of New Zealand indicated it may increase interest rates next year. There was also a modicum of weakness across the Fund's lower rated bonds, especially in its exposure to US bank preference shares and subordinated bonds of European companies.

Across the month overall Fund settings were close to unchanged but the allocation to cash was increased slightly as we sold a number of the Fund's more expensive bond holdings. As per recent updates, our base case remains for a renewed gradual move higher in market interest rates, albeit the extent of this rise near term may be more limited than we previously feared. Nonetheless, the expectation underpins our slightly cautious outlook for bonds near term and therefore we retain Fund interest rate exposure below its long run neutral. Shares should be supported by ongoing supportive central bank and government policy, reopening economies and what are likely to remain historically low interest rates. Returns may however moderate as many share valuations are no longer cheap.

Therefore, while we have not reduced the Fund's share exposure any further (after having trimmed a bit in April) it remains close to, but just below, its long-run neutral. In aggregate looking forward, we believe Fund positioning should underpin moderate medium-term returns but as stated before i) near-term returns could be more volatile while ii) medium-term returns are likely to moderate relative to recent years.

Actual investment mix[1]



- Effective Cash# 10.86%
- New Zealand Fixed Interest 21.52%
- International Fixed Interest 49.92%
- New Zealand Equities 3.14%
- Australian Equities 3.28%
- International Equities 7.80%
- Listed Property 2.49%
- Other* 0.99%

The actual cash held by the Fund is 7.84%. 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

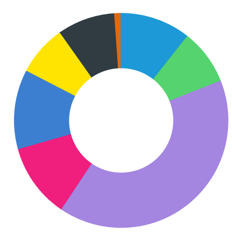
Portfolio Manager: Paul Morris

Performance was somewhat mixed across the Fund's holdings in May but nonetheless resulted in a return of 0.7% over the month. The bond markets to which the Fund is exposed experienced contrasting fortunes. Global and Australian investment grade rated (lower risk) bonds generally delivered positive returns, but many New Zealand bonds were weaker after the Reserve Bank of New Zealand indicated it may increase interest rates next year. There was also some weakness across the Fund's lower rated bonds, including in its exposure to US bank preference shares and subordinated bonds of European companies.

While performance across share markets was varied, overall the Fund's holdings contributed positively. This included notable contributions from Contact Energy (still the Fund's largest exposure;+4.5%) which continues to outperform other NZ electricity companies, CNH Industrial (European agricultural equipment; +15.6%) and Australian bank shares. We also took profit on some of the holding we had recently built in CSL Ltd (Australian human plasma company; +7.0%) after strong share price gains as the company benefits from the US reopening through improved plasma collections.

Transactions in the bond portfolio included (i) taking profit on AT&T preference shares after the company announced debt reduction plans post the sale of its media business and (ii) buying Deutsche Bank's subordinated bonds which outperformed peer securities in the month.

Looking forward, we remain reasonably optimistic for Fund returns even with a base case anticipating a gradual (but potentially more limited in the near term) move higher in market interest rates weighing on bond returns. Ongoing supportive central bank and government policy combined with reopening economies provides a supportive backdrop for shares, even with higher valuations. Nonetheless, over the month we marginally increased cash holdings, reducing bonds and shares, aiming to buy back at cheaper levels. We also retained strategies to help reduce the negative impact on the Fund from the aforementioned potential headwind of higher interest rates (specifically, having sold interest rate futures).



- Effective Cash# 10.67%
- New Zealand Fixed Interest 8.37%
- International Fixed Interest 40.32%
- New Zealand Equities 11.23%
- Australian Equities 11.99%
- International Equities 7.60%
- Listed Property 8.68%
- Other* 1.14%

The actual cash held by the Fund is 8.61%. 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

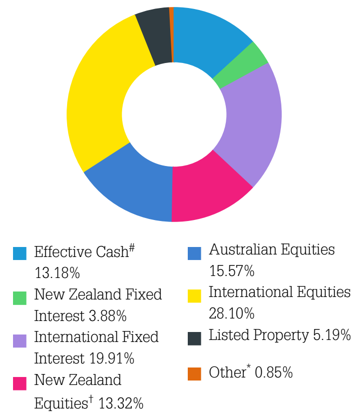
Portfolio Manager: Mark Riggall

The Fund returned 0.2% in May with a one-year return of 17.8%. After a frenetic 18 months, May was a relatively sedate month in markets. Many of the themes we have been expecting have already largely played out and investors, including ourselves, are waiting to see what will happen next.

The backdrop remains very supportive, including strong economic growth and policy makers intent on maintaining that strength. On the flip side, surging inflation means central bankers may have to start discussing how they will tighten monetary policy in the next few months. For this reason, bonds remain unattractive investments and the Fund is underweight in these assets. Shares are moderately expensive, but they benefit from the good backdrop and also from the fact that there are few alternatives to deliver reasonable investment returns.

Milford's investment team continue to find attractively valued companies. In May, examples of this were the Australian banks such as CBA which rallied 12.0%. Gold miners were also strong and key holding Evolution Mining delivered a 16.8% return in the month. Attractive investments such as these allow us to remain invested, whilst at the same time having flexibility to deal with a change in the outlook.

Actual investment mix[1]



The actual cash held by the Fund is 12.64%. 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

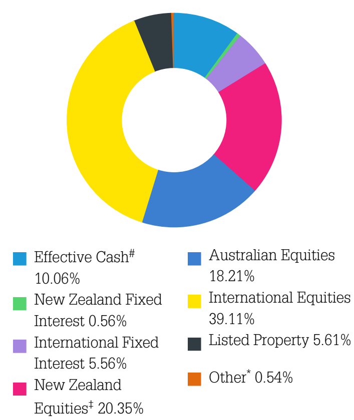
Portfolio Manager: Jonathan Windust

The Fund returned 0.5% in May with share market indices generating mixed results; global (+1.0%), Australia (+2.3%) and New Zealand (-3.2%). The New Zealand market was negatively impacted by the underperformance of some of the larger companies including a2 Milk and Fisher & Paykel Healthcare. The Fund performed relatively well, boosted by strong company selection and a minimal investment in a2 Milk. We continue to maintain our investment in Fisher & Paykel Healthcare given its strong long-term growth potential which has been accelerated by COVID-19.

Key positives during May included global industrial companies CNH Industrial (+15.6%) and CRH (+10.2%) and UK banks Lloyds (+9.8%) and Virgin Money (+6.5%). CNH Industrial produces agricultural and construction equipment and is benefitting from strong sales in response to rising commodity prices and strong construction markets. CRH is a global building materials company and is benefitting from strong housing and construction markets. UK banks continue to benefit from an improving economic outlook, rising interest rates and generally robust financial results. After a strong run the Fund reduced its holdings in Lloyds and US bank JP Morgan in favour of UK banks Natwest Group and Barclays which we believe are more attractively valued.

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.

Please note this Fund is closed to new investors.



The actual cash held by the Fund is 9.33%. 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 0.18% ‡ Includes unlisted equity holdings of 1.04% * 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

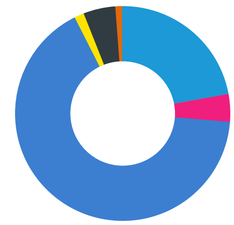
May was a volatile but still productive month for the Australian Absolute Growth Fund which gained 2.3% over the month. This brings the return for the calendar year to 12.7%.

At the beginning of May, the ASX 200 had a strong rally driven by a lot of the cyclical names we have favoured this year, including banks and miners. With signs of some short-term overheating in commodity markets we used this opportunity to trim our position in miners BHP, RIO, IGO and Oz Minerals. We also sold out of CBA as the bank climbed sharply towards $100 a share. Overall, the Fund retains significant positions in miners and banks through NAB, Westpac and Virgin Money UK where we have a positive medium-term view.

Some notable performers over the month were CSL, which rallied 7.0% as evidence emerged of improving plasma collection in the US. Tractor manufacturer CNH Industrial rallied 15.6% after reporting a strong result earlier in the month. And our gold miners were notable performers with Northern Star up 11.3% and Evolution Mining up 16.8%.

Our cash levels increased again in May as the above-mentioned profit taking in cyclicals was greater than various purchases we made in companies like Woolworths. We are comfortable with slightly more cash in the short-term as the Australian market sits at record levels and the Fund has already made strong gains this year. We will deploy the cash when attractive risk-adjusted opportunities present.

Actual investment mix[1]



The actual cash held by the Fund is 16.79%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

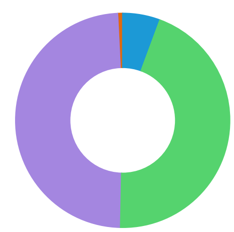
Trans-Tasman Bond Fund

Portfolio Manager: Travis Murdoch

Fixed income markets had a mixed performance in May. New Zealand government bonds yields ended the month materially higher (prices lower), markedly underperforming other government bond markets including the US and Australia whose yields moved lower. It was an eventful month in New Zealand. The government released its 2021 budget, which forecast higher government bond issuance than anticipated. The Reserve Bank of New Zealand (RBNZ) kept the Official Cash Rate (OCR) on hold at 0.25% at its Monetary Policy Statement, as expected. It was also notable, and less expected, that the RBNZ reintroduced is OCR forecast track which signalled the potential for rate hikes in the latter half of 2022.

Corporate bonds, to which the Fund is mostly exposed, had a relatively constructive month overall. However, the Fund finished the month down 0.3%, underperforming its benchmark due largely to the drag from below neutral interest rate positioning in US and Australian government bonds where yields moved lower (prices higher). The Fund was active in new issues where we added new bonds from Precinct Properties (NZ property) and an Australian Dollar denominated issue from Barclays PLC (UK bank).

Looking forward, we remain constructive on corporate bonds versus governments as (i) the growth outlook is supportive of company balance sheets and (ii) corporate bond issuance volumes are expected to remain low in the near term. The Fund retains below neutral interest rate exposure as the risks, especially offshore, remain skewed to a further move higher in interest rates.



The actual cash held by the Fund is 1.53%. 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

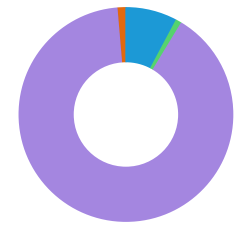
Portfolio Manager: Travis Murdoch

Fixed income markets had a mixed performance in May. US government bond yields moved lower (prices higher) for the second month in a row despite economic data reported during the month which showed material inflationary pressures in the US economy. US corporate bonds had a constructive month, outperforming government bonds, while in Europe corporate bonds were slightly weaker, in part reflecting relative weakness in European government bonds where yields ended the month higher.

The Fund returned 0.1% in May but underperformed the benchmark due to its below neutral interest rate exposure and lower Fund exposure to the riskier parts of the high yield market which had a strong month. The Fund was positioned to benefit from a busy start to offshore bond issuance, participating in several new issues including from T-Mobile (US telco) and Deutsche Bank (German bank).

Looking forward, risks remain for interest rates to drift higher over time. Fund interest rate exposure remains below neutral but is higher than earlier in the month after reducing some of its hedges. The Fund also maintains less exposure to the weakest parts of the high yield market where further outperformance is limited due to valuations, retaining subordinated bonds of investment grade corporates (including banks) instead. We remain constructive on corporate bonds relative to government bonds as (i) the growth outlook is supportive of company balance sheets and (ii) we expect bond issuance volumes to moderate as we head into the northern hemisphere summer.

Actual investment mix[1]



The actual cash held by the Fund is 5.56%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

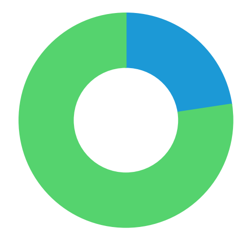
Cash Fund

Portfolio Manager: Travis Murdoch

The Reserve Bank of New Zealand (RBNZ) kept the Official Cash Rate (OCR) on hold at 0.25% at its Monetary Policy Statement (MPS) in May. This remains in line with our previously communicated base view for the OCR to remain on hold until at least early next year.

However, most notable from the MPS was the reintroduction of the RBNZ's OCR forecast track signalling potential rate hikes in the latter half of 2022. 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.



The actual cash held by the Fund is 22.61%. 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 Equity Fund

Portfolio Manager: Felix Fok

The Fund fell 0.1% in May. Over two years, the Fund is up 45.1% compared to the market index which is up 38.9%.

Key positive contributors included agriculture machinery company CNH Industrial (+15.6%). Farmer profitability is improving globally as soft commodity prices soar, and this will likely lead to a strong replacement cycle in tractors and combine harvesters.

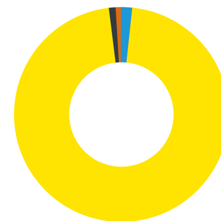
Another key contributor was Indian bank HDFC Bank (+8.9%), that rebounded from weakness in April, as the worst of the devastating second COVID-19 wave is hopefully behind them.

Also, shares of French luxury company Kering (+13.2%), the owner of brands such as Gucci, Saint Laurent and Bottega Veneta, have moved up strongly in the past two months as consumer spending and travel intention recover.

Detractors included technology heavyweights Amazon (-7.1%), Apple (-5.1%) and Mastercard (-5.6%), as investors favour more cyclical areas of the market, like energy and financials, at the expense of 'Covid Winners'. Despite the short-term weakness, we think these companies have fantastic business models and exciting medium-term growth prospects.

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]



The actual cash held by the Fund is 4.24%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

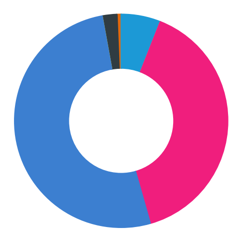
Trans-Tasman Equity Fund

Portfolio Manager: Sam Trethewey

The Fund fell 0.2% in May after a volatile month. The NZX 50 fell 3.2%, as market heavy weights Fisher & Paykel Healthcare and a2 Milk pulled back, while the ASX 200 rallied 2.3% driven by strength in cyclical stocks.

Notable performers for the Fund included cyclicals Aristocrat Leisure (+11.0%), Mainfreight (+4.8%) and Collins Foods (+10.8%), while Fisher & Paykel Healthcare fell 17.1% despite reporting a stellar annual result with profit up 82%. The market took exception to a lack of forward guidance provided by the company. At present Fisher & Paykel is facing a volatile demand environment due to COVID-19. We retain conviction in the medium-term growth outlook for the company with the installed base of its hospital respiratory equipment increasing significantly over the past year due to COVID-19. Over the month we added to Xero after the market sold the stock following its annual result in reaction to higher-than-expected cost guidance for the year ahead. For Xero higher costs represent spend on R&D and marketing to attract new subscribers increasing the long-term value of the business. Elsewhere we trimmed CBA as the stock approached A$100 and added to steel producer Bluescope.

Looking ahead, the Fund remains orientated towards cyclical stocks as the economic recovery from COVID-19 continues to surprise to the upside. In addition, May earnings releases and trading updates illustrated an ability for most of these companies to pass on cost pressures at this stage. We will be watching the recovery and cost pressures closely in the months ahead. Irrespective of short-term market performance, long-term returns will be 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 those where we see stretched balance sheets, earnings or valuation risk.



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.

Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins

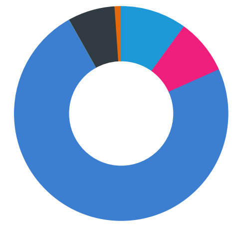
The Fund declined 0.3% in May, trailing the S&P/ASX Small Ordinary index by 0.6%. Over the past 12 months returns have been strong with the Fund returning 37.3%, 10.2% ahead of the benchmark.

Performance was again led by a broad range of companies across a range of industries. Two of our better performers were gold miners Evolution Mining (+16.8%) and Northern Star Resources (+11.3%). Both companies shadowed the buoyant gold price which rallied 8% over the month. Other winners included independent investment platform Praemium, which rallied 20% on heightened M&A speculation and a supportive management change.

The key detractor was EML Payments (-41.9%) which sold-off in May. The Central Bank of Ireland raised concerns when auditing PFS, a recent acquisition of EML. In response to the added uncertainty, we trimmed our position and will monitor closely for further clarity over the coming months. EML is a reminder that balancing risk and reward are critical in small company investing. Despite the disappointing sharp fall over the month, EML remains in our top five best investments over the past seven years of running the Dynamic strategy.

While equity markets remain choppy, cyclically exposed companies and reflation beneficiaries continue to outperform high-priced technology companies. We think this trend will continue in the near term and have positioned the portfolio accordingly.

Actual investment mix[1]



Effective Cash# 10.03%

New Zealand Equities 8.31%

Australian Equities 73.48%

Listed Property 7.09%

Other* 1.09%

The actual cash held by the Fund is 10.02%. 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)	22/07/2021
Diversified Income Fund	1.1 cents (Quarterly)	19/08/2021
Trans-Tasman Bond Fund	0.45 cents (Quarterly)	17/06/2021
Global Corporate Bond Fund	0.45 cents (Quarterly)	17/06/2021
Trans-Tasman Equity Fund	1.5 cents (Biannually)	16/09/2021

*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*	0.07%	7.38%	5.91%	6.05%	6.30%	1.2369	560.5 M
Diversified Income Fund*	0.66%	11.71%	7.42%	7.79%	10.61%	1.8751	2,619.1 M
Balanced Fund	0.20%	17.78%	9.75%	9.55%	10.17%	2.8327	1,404.8 M
Active Growth Fund#	0.48%	26.00%	12.15%	11.79%	12.89%	4.8831	1,685.7 M
Australian Absolute Growth Fund	2.27%	25.32%	11.55%	—	11.44%	1.4162	397.7 M
Cash and Fixed Income Funds							
Trans-Tasman Bond Fund*^	-0.26%	2.52%	4.44%	4.35%	5.15%	1.1995	889.1 M
Global Corporate Bond Fund*^	0.14%	6.00%	4.97%	—	4.87%	1.1088	844.8 M
Cash Fund	0.03%	0.38%	—	—	1.04%	1.0236	100.1 M
Equity Funds							
Global Equity Fund†	-0.05%	24.93%	14.21%	12.78%	10.60%	2.2461	1,165.5 M
Trans-Tasman Equity Fund*	-0.19%	26.77%	15.43%	15.19%	12.19%	3.8647	857.3 M
Dynamic Fund	-0.27%	37.30%	15.42%	15.27%	14.76%	2.8388	733.8 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.
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)	-3.19%	13.88%	13.38%	12.92%	14.39%
S&P/ASX 200 Accumulation Index (AUD)	2.34%	28.23%	9.95%	10.11%	8.21%
S&P/ASX 200 Accumulation Index (NZD)	1.08%	27.26%	9.43%	9.95%	7.74%
MSCI World Index (local currency)*	1.03%	36.92%	13.94%	13.90%	11.01%
MSCI World Index (NZD)*	-0.02%	19.62%	13.01%	12.57%	12.66%
S&P/NZX 90-Day Bank Bill Rate	0.04%	0.30%	1.21%	1.56%	2.07%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	0.22%	0.09%	4.49%	3.27%	3.57%
S&P/NZX NZ Government Bond Index	-0.66%	-4.29%	3.48%	3.04%	4.34%

*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 2.02%	Contact Energy 2.78%	Contact Energy 2.27%	Contact Energy 3.35%	NAB 6.41%
Scentre Group 5.125% 2080 1.02%	Spark 2.05%	Fisher & Paykel 1.58%	Spark 3.05%	BHP 5.69%
Housing NZ 3.36% 2025 0.98%	Telstra 1.85%	Spark 1.56%	Virgin Money 3.03%	CSL 5.57%
NZLGFA 1.5% 2029 0.93%	Scentre Group 5.125% 2080 1.79%	Alphabet 1.15%	Fisher & Paykel 2.91%	Woolworths 4.40%
NZLGFA 3.5% 2033 0.85%	Meridian 1.68%	Telstra 1.10%	HCA Holdings 2.31%	Telstra 4.00%
Transpower 1.735% 2025 0.80%	NAB 1.66%	NAB 1.08%	Alphabet 2.28%	Evolution Mining 3.35%
Contact Energy 0.78%	Transurban 1.25%	Microsoft 1.07%	Summerset 2.21%	Northern Star 3.13%
ANZ Bank Float 2024 0.77%	Goodman 1.25%	Meridian 1.01%	Microsoft 2.09%	Rio Tinto 3.03%
Charter Hall 2.787% 2031 0.74%	Woolworths 1.17%	Virgin Money 0.97%	Dr Horton 2.05%	Virgin Money 2.89%
John Deere 1.75% 2024 0.73%	Getlink 0.89%	Mainfreight 0.95%	Charter Hall Retail 1.80%	Santos 2.86%

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 4.52%	Seagate 4.091% 2029 1.46%	Westpac 32 Day CMD 2020 11.99%
Housing NZ 3.36% 2025 2.27%	Danaher Corp 0.45% 2028 1.45%	Port of Tauranga CD 2021 9.98%
NZLGFA 1.5% 2029 2.17%	McDonald's 3% 2024 1.39%	Meridian CD 2021 6.99%
NZLGFA 3.5% 2033 1.97%	NXP BV 4.3% 2029 1.32%	Contact CD 2021 4.99%
Transpower 1.735% 2025 1.86%	John Deere 1.75% 2024 1.30%	SBS CD 2021 4.99%
ANZ Bank Float 2024 1.79%	Macquarie 3.052% 2036 1.28%	TSB Bank CD 2021 4.99%
Macquarie Float 2025 1.70%	John Deere 0.70% 2026 1.21%	Auckland Airport CD 2021 4.99%
Westpac 1.439% 2026 1.66%	Crown Castle 2.25% 2031 1.19%	Spark CD 2021 4.99%
B & A Bank Float 2025 1.55%	Vantage Towers 0.75% 2030 1.18%	Genesis CD 2021 4.49%
Ausgrid Finance 1.814% 2027 1.54%	Bank of America 1.898% 2031 1.18%	Spark CD 2021 4.00%

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 3.87%	Fisher & Paykel 6.65%	Collins Foods 4.93%
Microsoft 3.60%	Mainfreight 4.44%	Northern Star 4.48%
Amazon 2.85%	Xero 4.38%	Evolution Mining 4.06%
Apple 2.54%	CSL 3.86%	Virgin Money 3.91%
Charles Schwab 2.53%	Infratil 3.53%	HUB24 3.86%
Intercontinental Exchange 2.52%	NAB 3.37%	Seven Group 3.62%
Dr Horton 2.38%	Contact Energy 2.81%	Contact Energy 3.45%
TSMC 2.34%	BHP 2.73%	Sealink Travel 3.39%
Paypal 2.31%	Summerset 2.69%	IGO 2.69%
TransUnion 2.22%	Rio Tinto 2.65%	Bapcor 2.63%

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 and Milford staff have approximately $32.6 million invested across our Investment Funds as at the end of May 2021.

Sam Trethewey
Portfolio Manager

Investment Highlight - The a2 Milk Company

What went wrong and can it be fixed?

The a2 Milk Company was once a market darling of the NZX. At the end of 2019, the stock was recognised by financial journalists from Bloomberg as the best performing stock of the decade[1] with an astounding return of 16,150%. a2's share price performance far outstripped other high profile disruptive companies like Netflix which returned 4,000% over the same period.

a2 had been a mainstay within Milford's NZ equity holdings from 2012 when the share price was below $1. At the time, our investment thesis was based upon the company having a differentiated but largely unproven product and a passionate and highly incentivised management team led by CEO Geoff Babidge.

In 2015, after several years of selling fresh milk in Australia, a2 began to gain traction in the Chinese infant formula market and sales growth accelerated rapidly. a2's success was built on satisfying the huge demand from the Chinese consumer for dairy products from abroad. In 2020, a2's revenue peaked at $1.7bn and the market capitalisation reached $15bn with the share price above $20.

COVID-19: the turning point

a2 initially benefitted from the COVID-19 pandemic. At the onset, Chinese mothers stockpiled infant formula to ensure they managed through lockdowns. Management confirmed this to investors in a trading update on 22 April 2020 where it indicated trading performance had been running ahead of expectations due to "changes in consumer purchase behaviour arising from the Covid-19 situation" and "an increase in pantry stocking of our products."

At the same time, the infant formula market in China was becoming increasingly competitive. Declining Chinese birth rates were reducing the overall market size and domestic-based competitors were becoming better funded and winning an increasing share. The pandemic also caused a behavioural shift within Chinese consumers to buy local across many categories.

Despite the changing end market conditions, a2's management was, in our view, slow to react. The company continued to target strong revenue growth and continued to push product into its distribution channels. Towards the end of last year several trading updates indicated, a2's sales growth fell below internal expectations and consequently inventory built up within distributors. As market conditions remained tough, a2's inventory began to age, placing further pressure on distributors and pricing fell as they tried to clear the aging stock.

Put simply, the rapidly changing market was not addressed by management with an appropriate change in distribution strategy, resulting in a2 having too much inventory last year. It must take drastic measures to fix the problem.

Looking ahead

New CEO David Bortolussi has the task of fixing the problem. a2's trading update this month reinforced the lack of visibility a2 has within its distribution channels. So far Bortolussi has announced a buyback of some of the aging inventory and a review of inventory management.

However, rebuilding a2's sales momentum is likely to take time, years not months, and may come at a significant cost. The company will likely have to significantly increase marketing spend and payments to distributors to return to growth. a2 may sell $1.7bn of infant formula again but the profitability is likely to be different going forward.

We made the decision to exit the majority of our holding in the stock late last year, however we will continue to monitor the prospects for a2 closely.

1. https://www.bloomberg.com/opinion/articles/2019-12-31/a2-milk-stock-outperformed-alibaba-apple-and-netflix-over-decade?sref=2tD1X1Rt