Milford KiwiSaver Plan
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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KiwiSaver Cash Fund

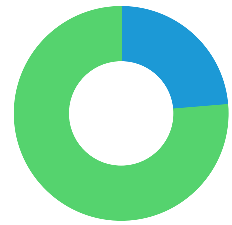
Portfolio Manager: Travis Murdoch

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.

Actual investment mix[1]



- Effective Cash# 23.69%
- New Zealand Fixed Interest 76.31%
- Other* 0%

The actual cash held by the Fund is 23.69%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

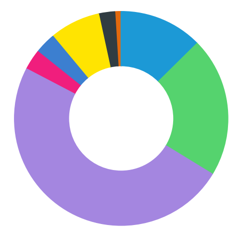
KiwiSaver Conservative Fund

Portfolio Manager: Paul Morris

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.



- Effective Cash# 12.62%
- New Zealand Fixed Interest 21.10%
- International Fixed Interest 48.93%
- New Zealand Equities 3.08%
- Australian Equities 3.21%
- International Equities 7.65%
- Listed Property 2.44%
- Other* 0.97%

The actual cash held by the Fund is 9.64%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

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

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

KiwiSaver Moderate Fund

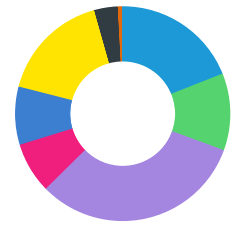
Portfolio Manager: Mark Riggall

The Fund returned 0.1% in May with a one-year return of 11.6%. 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 relatively unattractive investments in the near term.

For the Fund, this has meant an increased exposure to shares and a reduced exposure to longer-dated bonds (that are more sensitive to interest rates). In addition, the predominantly corporate bond exposure of the Fund helps deliver a return above that achievable from unattractive government bonds. Flexibility within the Fund is allowing us to remain invested with plenty of attractive opportunities in shares to try and generate returns going forward.

Actual investment mix[1]



- Effective Cash# 19.00%
- New Zealand Fixed Interest 11.60%
- International Fixed Interest 31.99%
- New Zealand Equities^ 7.64%
- Australian Equities 8.75%
- International Equities 16.64%
- Listed Property 3.54%
- Other* 0.84%

The actual cash held by the Fund is 17.35%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

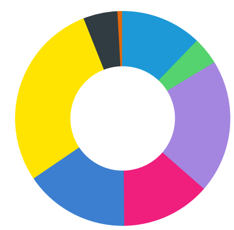
KiwiSaver Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 0.2% 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.



- Effective Cash# 12.19%
- New Zealand Fixed Interest 4.13%
- International Fixed Interest 20.15%
- New Zealand Equities† 13.39%
- Australian Equities 15.60%
- International Equities 28.52%
- Listed Property 5.14%
- Other* 0.88%

The actual cash held by the Fund is 11.61%. 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 0.18% *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

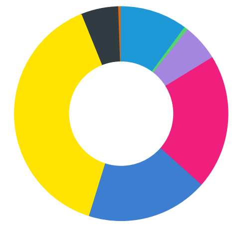
Portfolio Manager: Jonathan Windust

The Fund returned 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.

Actual investment mix[1]



The actual cash held by the Fund is 9.42%. 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

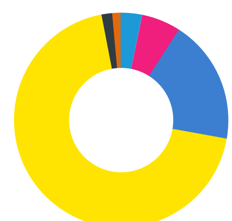
The Fund made a small gain (+0.2%) in May. It was a bumpy month for global share markets, as the positives of strong economic data and earnings were offset by concerns of rising inflationary pressures.

Key positive contributors for the month 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. US private hospital company HCA (+6.8%) continued its strong run, as surgical and outpatient volumes continue to recover as the pandemic subsides in the US.

Detractors from performance included technology heavyweights including Amazon (-7.0%), Apple (-5.1%) and Mastercard (-5.6%), as money continued to rotate to more cyclical areas of the market, like energy and financials. Despite the short-term weakness, we think all of these companies have fantastic business models and exciting medium-term growth prospects.

The biggest positive contributors in Australasia were Australian bank CBA (+12.0%), fast food operator Collins Foods (+10.8%) and biopharma company CSL (+7.0%). Key detractors included Fisher & Paykel Healthcare (-17.1%), that fell heavily after providing disappointing guidance, and Australian payments company EML (-41.9%) was weak on regulatory concerns.

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 which are key beneficiaries of the economic recovery.



The actual cash held by the Fund is 10.28%. 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 1.04% *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.

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	0.02%	0.37%	–	–	0.37%	1.0044	14.8 M
KiwiSaver Conservative Fund	-0.04%	7.08%	5.80%	5.93%	8.39%	1.9774	171.7 M
KiwiSaver Moderate Fund	0.14%	11.60%	–	–	15.30%	1.1815	45.5 M
KiwiSaver Balanced Fund	0.21%	18.37%	10.02%	9.77%	10.43%	2.9074	643.8 M
KiwiSaver Active Growth Fund^	0.49%	27.08%	12.41%	12.02%	13.02%	4.9605	2,429.2 M
KiwiSaver Aggressive Fund	0.23%	28.32%	–	–	18.90%	1.3705	486.4 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)	-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

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 11.83%	NZLGFA 1.5% 2026 1.98%	Contact Energy 1.41%
Port of Tauranga CD 2021 9.84%	Scentre Group 5.125% 2080 1.00%	NZLGFA 1.5% 2026 1.05%
Meridian CD 2021 6.89%	Housing NZ 3.36% 2025 0.96%	Spark 0.99%
Contact CD 2021 4.92%	NZLGFA 1.5% 2029 0.91%	Scentre Group 5.125% 2080 0.84%
SBS CD 2021 4.92%	NZLGFA 3.5% 2033 0.83%	Fisher & Paykel 0.80%
TSB Bank CD 2021 4.92%	Transpower 1.735% 2025 0.78%	Telstra 0.75%
Auckland Airport CD 2021 4.92%	Contact Energy 0.76%	NAB 0.71%
Spark CD 2021 4.92%	ANZ Bank Float 2024 0.75%	Meridian 0.68%
Genesis CD 2021 4.43%	Charter Hall 2.787% 2031 0.73%	Alphabet 0.66%
Spark CD 2021 3.94%	John Deere 1.75% 2024 0.72%	Microsoft 0.61%

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%	Contact Energy 3.35%	Alphabet 2.62%
Fisher & Paykel 1.59%	Spark 3.04%	Microsoft 2.40%
Spark 1.55%	Virgin Money 3.03%	Mastercard 1.81%
Alphabet 1.17%	Fisher & Paykel 2.91%	HCA Holdings 1.71%
Microsoft 1.08%	HCA Holdings 2.31%	Dr Horton 1.70%
Telstra 1.08%	Alphabet 2.27%	Charles Schwab 1.66%
NAB 1.07%	Summerset 2.21%	Amazon 1.66%
Meridian 1.01%	Microsoft 2.09%	Home Depot 1.65%
Virgin Money 0.97%	Dr Horton 2.05%	Nintendo 1.65%
Mainfreight 0.96%	Charter Hall Retail 1.80%	TSMC 1.60%

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 $14.8 million invested in the Milford KiwiSaver Plan 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

Investing to get ahead? KiwiSaver might not be all that you need

With a head full of 'must-do' tasks, we're often left with a long list of things we never quite get around to. Some decisions are more complex than others and finding the headspace to think about them isn't easy. For many of us, our finances, investing for the future, and trying to 'get ahead' fall into this category. The reality is that your goals are likely more achievable than you think.

KiwiSaver will continue to be the largest form of retirement savings for most New Zealanders', and with total funds invested of over $78 billion it is already significantly larger than the size of the New Zealand Superannuation Fund at $58 billion. That's pretty impressive growth.

Ashley Brown
Financial Adviser

However, there are other options you may choose to consider to help build your retirement nest egg alongside your KiwiSaver. One of these options is Milford Investment Funds. Investment Funds can complement your KiwiSaver savings and provide flexibility with access to the investment earlier than age 65.

Why is it worth considering a Milford Investment Fund alongside your KiwiSaver?

It provides flexibility

Our wide range of funds means we have a solution to suit nearly any investor. Whether you're looking to grow your savings for your future or you're aiming for a stable income in retirement, we have a fund for you.

If you want, you can add to your investment on a regular or ad-hoc basis. Whether it's $50 per week, or a one-off lump sum, the Investment Fund can be used however you'd like.

Investing into a fund with Milford requires just $1,000 to start and, unlike KiwiSaver, you have ready access to your money if and when you need it.

You also have the convenience of seeing your Investment Funds right alongside your KiwiSaver Funds in the Milford mobile app and client portal, as well as the ease of transacting via these tools.

Managed by the same globally experienced team

The same investment philosophy, structured processes and active management is applied to our Investment Funds. Our experienced investment team of 32 professionals across our Auckland and Sydney offices research the world to find the best companies to grow your wealth.

If you're considering investing alongside your KiwiSaver to add flexibility to your retirement savings, and want to leave it to the professionals, a Milford Investment Fund may be a good option to consider.

Find out more about Investment Funds on our website.