Milford Investment Funds
Monthly Review July 2021

Has the pace of global economic growth peaked?

Fund returns in June were positive, supported by modestly higher share markets both locally and globally.

An increasingly vaccinated globe is removing social distancing restrictions, unleashing a pent-up wave of spending and driving a surge in economic growth. This was led by the US with Europe now following quickly behind. This growth has been supported by extraordinary government spending and unprecedented central bank monetary policy accommodation. The global economy is now growing so fast that businesses can't keep up – there just isn't enough supply of goods and labour to meet the demand.

This supply-demand imbalance is driving up prices, i.e. inflation, and this is getting the attention of central banks. Investors now expect the RBNZ to hike rates in the next 12 months and the previously dismissive US central bank now characterise inflation risks as being skewed to the upside. This marks the beginning of a long process of policy normalisation, albeit from extraordinarily accommodative current levels. We continue to see risks from rising market interest rates and our Fund positions reflect this view.

Share markets in June were higher but concerns over the Delta variant saw Covid beneficiary stocks lead the way. Respirator suppliers Fisher and Paykel Healthcare and ResMed were up 5.5% and 20.8% respectively, both stocks also benefitting from a competitor misstep. In the US, online shopping platform Shopify and Amazon were up 17.5% and 6.7% respectively.

Our diversified approach helped returns as holdings in strong performers such as those listed above more than offset other holdings that were more lacklustre in the month. A key laggard in June were the banks, both in Australia and the UK. We have been accumulating these stocks as we think they are well placed to profit as economies return to some normalcy. They also tend to benefit from higher interest rates.

As we look ahead, peaking global growth and a 'less easy' monetary policy backdrop doesn't detract from what remains a very favourable investing environment. The Delta variant is concerning, but most of the world is rapidly vaccinating its population. Inflation, and its persistence, is our key focus over the next few months and quarters.

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Conservative Fund

Portfolio Manager: Paul Morris

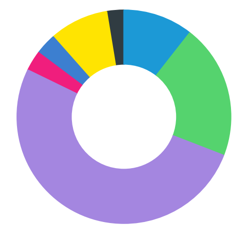
Bonds and shares contributed positively to a 0.5% Fund return in June but beneath the surface performance was more mixed. Shorter dated bonds were moderately weaker (their interest rates rose in expectation of higher cash rates) but longer dated bonds were stronger (their interest rates fell due to less perceived risk central banks will allow inflation to run too high). The latter supported the Fund's income-oriented shares but also its shares with high earnings growth which are predominately global shares.

Our base case remains for a renewed gradual move higher in market interest rates. Signals that central banks may be wary of inflation risks underpins our expectation that this rise may be more limited than previously feared. Nevertheless, we retain a cautious outlook for bonds in the near term and have left interest rate exposure below its long run neutral.

Across the month we did incrementally add to shares. Valuations may not be cheap historically but should be supported by ongoing supportive central bank and government policy, reopening economies and what are likely to remain historically low interest rates.

Looking forward, we remain optimistic for moderate Fund returns. We continue to identify bonds and shares that can offer a better return for their risk than the broader market and believe active management should help cushion the Fund's returns over the medium term from any headwind associated with what remains a possible further rise in market interest rates.

Actual investment mix[1]



- Effective Cash# 10.57%
- New Zealand Fixed Interest 20.32%
- International Fixed Interest 51.33%
- New Zealand Equities 3.05%
- Australian Equities 3.22%
- International Equities 8.92%
- Listed Property 2.59%
- Other* 0%

The actual cash held by the Fund is 7.66%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

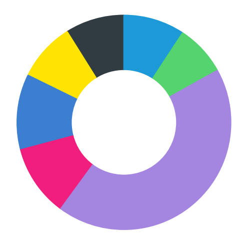
Diversified Income Fund

Portfolio Manager: Paul Morris

June saw the Fund up 0.9% with bonds and shares contributing positively to returns. There was however mixed performance across holdings within both. Shorter dated bonds were weaker (their interest rates rose in expectation of higher cash rates) but longer dated bonds were stronger (their interest rates fell due to less perceived risk central banks will allow inflation run too high). The latter supported income-oriented shares.

Our Australasian property exposures made strong gains, including a notable 9.7% increase in Goodman Group Australian (the Fund's biggest property exposure). Utilities were more mixed. The Fund's NZ electricity companies performed well with Contact Energy (the largest Fund exposure) up 5.1% but some of the smaller global utility exposures were weaker. Of the Fund's other larger share holdings Telstra (1.9% of the Fund) was a callout performer, gaining 6.8% on an improved competition backdrop and successful sale of part of its cell towers.

Underperforming shares were focused in reopening beneficiary sectors (e.g. airports) as concerns weighed around the Delta variant of the virus, and in more cyclical exposures, predominantly bank shares, which gave back some recent gains. Looking forward, we remain reasonably optimistic for Fund returns. We are aware of elevated bond and share market valuations but believe active management should allow us to (i) identify bonds and shares that can offer a better return for their risk than the market and (ii) cushion Fund returns over the medium term from any headwind associated with what remains a possible further rise in market interest rates.



- Effective Cash# 9.25%
- New Zealand Fixed Interest 7.69%
- International Fixed Interest 43.13%
- New Zealand Equities 10.80%
- Australian Equities 11.38%
- International Equities 8.83%
- Listed Property 8.92%
- 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.

Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 1.8% in June, bringing the one-year return to 18.4%. The Fund's strategy has remained broadly stable for the past few months. The biggest tilt is a significantly reduced exposure to bonds as we think the yields on offer are very unattractive given the strong growth and high inflation backdrop. For the past few months bond yields have remained stable, anchoring the income part of the Fund and allowing the equity investments to perform.

On the equity side, an overweight to shares has enabled the Fund to capture market returns and benefit from the good stock selection in the underlying Funds. In June, there was a resurgence in 'growth' companies such as online shopping platforms Shopify (+17.5%) and Amazon (+6.7%). Respirator companies ResMed (+20.8%) and Fisher & Paykel Healthcare (+4.5%) also were strong on the back of a product recall by a competitor.

Going forward we expect our increased holdings in banks in Australia and the UK to perform well. Earnings should improve as economies reopen and banks tend to benefit as interest rates rise. Looking ahead we continue to stick to our playbook. Growth is peaking and market interest rates should drift higher. This only slightly dulls what remains a very favourable backdrop for investing.

Actual investment mix[1]

- Effective Cash# 12.51%
- New Zealand Fixed Interest 3.58%
- International Fixed Interest 20.93%
- New Zealand Equities† 12.79%
- Australian Equities 14.66%
- International Equities 30.02%
- Listed Property 5.51%
- Other* 0%

The actual cash held by the Fund is 11.24%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

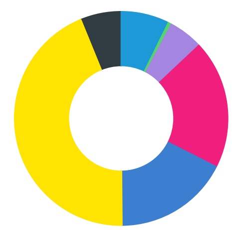
Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund returned 1.8% in June with strong returns from major share market indices; global (+2.3%), Australia (+2.3%) and New Zealand (+2.8%). Share markets benefitted from continued high demand from retail investors in response to low interest rates. Rising Covid cases saw the technology and healthcare sectors perform well whilst recovery sectors, such as banks, underperformed.

Key positives during the month included healthcare companies Thermo Fisher (+7.5%) and ResMed (+20.8%) and technology companies Microsoft (+8.5%) and Intuit (+11.6%). Intuit provides accounting and tax software to individuals and small businesses across the globe. We believe that Intuit has a long runway for growth particularly in the United States where the adoption of cloud accounting software is very low - particularly compared to New Zealand. During the month we added to our holdings in all four of these companies reflecting the positive investment backdrop.

The outlook for shares remains 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 inflation and interest rates. 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.



- Effective Cash# 7.29%
- New Zealand Fixed Interest 0.51%
- International Fixed Interest 5.20%
- New Zealand Equities‡ 19.46%
- Australian Equities 17.41%
- International Equities 43.95%
- Listed Property 6.18%
- Other* 0%

The actual cash held by the Fund is 8.08%. 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 1.00% *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

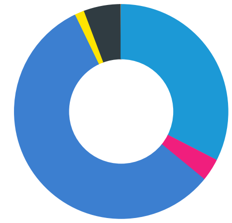
The ASX 200 rose for the ninth consecutive month helping the Fund along to a 0.2% monthly gain. This completes a great first half year for the Fund with a return of 13.0%.

Hawkish comments by the Federal Reserve and a strong Australian jobs release during the month make it likely that the RBA will raise cash interest rates much earlier than its current 2024 target. Increasing interest rates are typically positive for bank margins and earnings so on the back of this we increased our position in banks over the month with purchases of ANZ, Westpac and Bank of Queensland.

The other major positioning move over the month was the trimming of our gold and mining stocks prior to the Federal Reserve meeting which preceded a sell-off in commodities. We were anticipating US Dollar strength and commodity weakness on any hawkish statements and this proved to be correct. While medium-term we see good prospects for copper, lithium and iron ore miners, in the short-term commodities may remain under pressure as China enters its seasonally weaker demand period in July and August.

Our top contributor over the month was ResMed which we fortunately purchased prior to a product recall by competitor Philips that helped ResMed gain 20.8% over the month. Telstra was also a strong performer (+6.8%) as it divested 49% of its tower infrastructure business for an attractive price.

Actual investment mix[1]



Effective Cash# 32.54%

New Zealand Equities 3.38%

Australian Equities 56.90%

International Equities 1.42%

Listed Property 5.54%

Other* 0.22%

The actual cash held by the Fund is 18.89%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

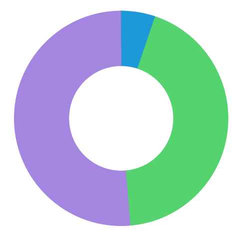
Trans-Tasman Bond Fund

Portfolio Manager: Travis Murdoch

It was another mixed month in Australasian fixed income markets. Shorter dated New Zealand government bond yields moved materially higher (prices lower), suggesting that bond markets are now expecting rate hikes to start significantly earlier than they did before the Reserve Bank of New Zealand (RBNZ) meeting in May. In Australia, shorter dated government bond yields moved higher to a lesser extent but longer dated yields moved materially lower, suggesting that bond markets expect the Reserve Bank of Australia to wait longer than the RBNZ before increasing interest rates.

Corporate bonds, to which the Fund is mostly exposed, had another constructive month and the Fund returned 0.2%. However, the Fund underperformed its benchmark due in part to the drag from being underexposed to the fall in longer dated bond yields. The Fund was active once again in primary markets where we added new bonds in companies including Bank of New Zealand and Wesfarmers (Australian retail/industrial). New issue supply of corporate bonds is likely to moderate further in the near term, which should be supportive of their prices relative to government bonds.

Looking forward, we remain wary of inflationary pressures building, especially in the New Zealand economy, and as such the Fund maintains below neutral interest rate exposure to cushion the potential impact on bond returns from higher government bond yields. With solid economic growth underpinning company balance sheets, we remain constructive on corporate bonds and continue to see good opportunities to optimise the Fund's holdings, particularly in the Australian corporate bond market.



Effective Cash# 5.21%

New Zealand Fixed Interest 43.50%

International Fixed Interest 51.16%

Other* 0.13%

The actual cash held by the Fund is 0.78%. 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

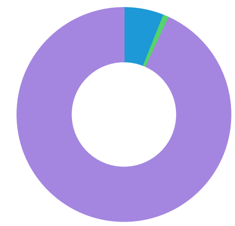
Portfolio Manager: Travis Murdoch

Fixed income markets generally had a positive month in June. There was a clear shift in tone from the US Federal Reserve (the Fed) at their mid-month monetary policy meeting. Reflecting increased optimism on the US economy, the Fed's median staff forecast for first rate hikes moved from 2024 to 2023 and discussions started on when they may begin tapering asset purchases. Shorter dated US government bond yields moved higher (prices lower) suggesting markets expect rates hikes to start earlier than previously expected, while longer dates yields resumed their move lower. Corporate bond markets took the Fed's hawkish pivot in their stride, with prices broadly moving higher.

The Fund returned 0.3% in June and outperformed its benchmark due to its above neutral allocation to corporate bonds. The Fund was active in the primary market where it bought bonds in new issues from companies including Nestle (consumer staples), and rare issuers such as Wesfarmers (retail/industrial) and Salesforce.com (information technology). The Fund took advantage of market strength to reduce some longer maturity corporate bond exposures which may be more sensitive to interest rate increases.

We remain constructive on corporate bonds as we head into the northern hemisphere summer when issuance in the primary market is seasonally lower. Whilst central banks are shifting their focus to when they might hike interest rates, monetary policy remains supportive for corporate bond markets in the near-term and strong global growth continues to underpin company balance sheets. Nonetheless, higher interest rates remain a potential headwind and the Fund maintains below neutral interest rate positioning to cushion against potential impact a move higher may have on bond returns.

Actual investment mix[1]



Effective Cash# 6.07%
Other* 0%
New Zealand Fixed Interest 0.85%
International Fixed Interest 93.08%

The actual cash held by the Fund is 3.62%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

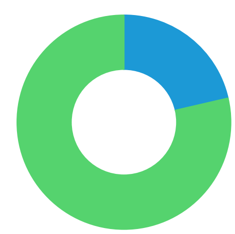
Cash Fund

Portfolio Manager: Travis Murdoch

In June the Fund generated a return of 0.03%, in line with its objective to deliver a return in excess of the Reserve Bank of New Zealand (RBNZ) Official Cash Rate (OCR) after fees.

Market pricing currently suggests no change in the OCR at the next RBNZ OCR decision meeting in mid-July but with the focus offshore moving away from increasing monetary stimulus and the domestic NZ economic picture better than previously feared, market expectations are increasingly for a higher OCR.

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.



Effective Cash# 21.39%
Other* 0%
New Zealand Fixed Interest 78.61%

The actual cash held by the Fund is 21.39%. 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 jumped 4.6% in June. Over two years, the Fund is up 45.4% compared to the market index which is up 38.2%.

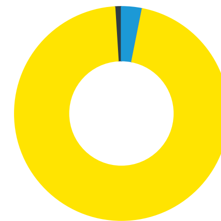
Key positive contributors included Microsoft (+8.5%), a major player in providing hosted computing and data storage for businesses. In a milestone, Microsoft became the second company after Apple to join the exclusive $2 trillion market capitalisation club. PayPal (+12.1%) continues to push ahead with making payments easy online and offline across everyday use cases. Apple (+9.9%) sells premium consumer products (iPhones, MacBooks, Apple Watch) that run its own software (iOS) and hardware (processors). This integrated approach has led to a superior consumer experience compared to others.

In general, technology shares had been a laggard earlier in the year as investors favoured sectors and companies more sensitive to a recovery from the pandemic. This rotation reversed somewhat in recent months.

Detractors included Chinese internet companies Tencent (-5.7%) and NetEase (-2.0%). Regulatory risk and competition pressure have intensified for large Chinese companies, especially for those listed in the US. The Fund has reduced its exposure to this group in recent months in favour of stronger ideas.

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 4.80%. 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

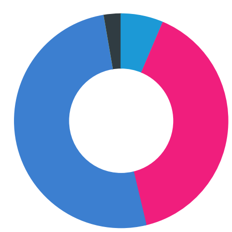
Portfolio Manager: Sam Trethewey

The Fund gained 2.3% in June, bringing the one-year return to 24.5%. The Fund's June performance compares to a return of 2.8% for the NZX 50 index and 2.3% for the ASX 200.

Highlights for the month included Fisher & Paykel Healthcare (+5.5%), IDP Education (+9.1%) and Summerset (+7.3%). Fisher & Paykel rallied following a competitor product recall and concerns over rising global cases of the COVID-19 Delta variant. We maintain conviction in the medium-term growth outlook for Fisher & Paykel with the installed base of its hospital respiratory equipment increasing significantly over the past year. IDP Education is a provider of international student testing and placement that is benefitting from the recovery in international student activity. Summerset continued to re-rate on strength in the New Zealand housing market and an attractive growth profile compared to other listed retirement village operators.

During the month we participated in a $250m capital raise by Precinct Properties to fund the acquisition of two Wellington office towers. We also increased our holding in Westpac. The bank trades at an attractive valuation and we expect their cost-out program to deliver earnings growth over the coming years. Elsewhere we trimmed our position in Auckland Airport and took advantage of weakness to add to our holding in Mercury Energy.

Looking ahead, the Fund remains orientated towards cyclical stocks as the economic recovery from COVID-19 continues to surprise to the upside. Company visits conducted across NZ and Australia during the month demonstrated inflationary pressures are rising in the local economy and will likely remain until boarders reopen. We will be monitoring our companies' ability to pass on cost pressure in the upcoming August reporting season. At this stage we are comfortable that our companies are in a strong position, managing to achieve price gains to offset cost pressure and maintain margins. 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 8.03%. 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

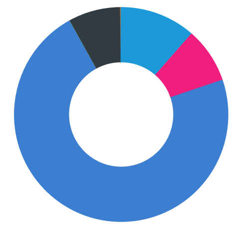
Portfolio Manager: William Curtayne & Michael Higgins

The Dynamic Fund increased 1.5% in June, trailing the S&P/ASX Small Ordinary index by 1.7%. Over the past 12 months performance has been strong with the Fund returning 38.5%, 4.9% ahead of the benchmark.

Performance was led by interconnection software platform Megaport (+22.9%). Megaport is exposed to the growing thematic of global connectivity and demand for secure data connections. Momentum in the business is very strong and the offering is clearly resonating with customers. We were pleased that a recent addition to the Fund, ResMed (+20.8%) was a strong performer over the month. Timing was fortuitous with key competitor Philips recalling a sleep and respiratory care product over health risks later in the month. Other winners included HUB24 (+6.3%).

Two exposures which detracted from performance were gold miners Evolution (-16.8%) and Northern Star (-16.4%). On the back of strong May performance, we trimmed our positions early in the month before an important US Federal reserve meeting. The recent COVID-19 volatility has created an investing environment ideal for a very active approach to investing. In many cases, small capitalisation companies are best placed to take advantage of investment opportunities in this environment. We remain invested in quality companies and reflation beneficiaries we believe can continue to perform despite uncertain conditions.

Actual investment mix[1]



The actual cash held by the Fund is 11.49%. 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)	16/09/2021
Global Corporate Bond Fund	0.45 cents (Quarterly)	16/09/2021
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*	0.51%	7.03%	5.90%	6.07%	6.30%	1.2432	577.0 M
Diversified Income Fund*	0.88%	11.96%	7.44%	7.96%	10.62%	1.8913	2,687.0 M
Balanced Fund	1.78%	18.36%	10.03%	10.21%	10.26%	2.8825	1,509.8 M
Active Growth Fund	1.80%	25.79%	12.24%	12.65%	12.96%	4.9698	1,798.2 M
Australian Absolute Growth Fund	0.22%	23.30%	11.04%	—	11.22%	1.4193	422.3 M
Cash and Fixed Income Funds							
Trans-Tasman Bond Fund*^	0.17%	2.12%	4.37%	4.27%	5.12%	1.1971	899.9 M
Global Corporate Bond Fund*^	0.25%	5.20%	5.05%	—	4.83%	1.1070	854.4 M
Cash Fund	0.03%	0.38%	—	—	1.02%	1.0239	99.2 M
Equity Funds							
Global Equity Fund†	4.64%	29.34%	15.38%	14.30%	11.10%	2.3500	1,289.4 M
Trans-Tasman Equity Fund*	2.25%	24.54%	14.96%	16.48%	12.30%	3.9502	900.4 M
Dynamic Fund	1.45%	38.47%	15.41%	16.42%	14.80%	2.8798	784.2 M

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

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)	2.79%	11.21%	13.15%	13.99%	14.95%
S&P/ASX 200 Accumulation Index (AUD)	2.26%	27.80%	9.59%	11.16%	8.79%
S&P/ASX 200 Accumulation Index (NZD)	3.30%	28.34%	9.02%	11.76%	8.73%
MSCI World Index (local currency)*	2.34%	36.89%	14.70%	14.73%	11.16%
MSCI World Index (NZD)*	5.74%	28.10%	13.79%	15.27%	13.77%
S&P/NZX 90-Day Bank Bill Rate	0.03%	0.31%	1.16%	1.53%	2.03%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	0.49%	0.07%	4.59%	2.98%	3.60%
S&P/NZX NZ Government Bond Index	0.09%	-3.60%	3.32%	2.87%	4.40%

*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 1.94%	Contact Energy 2.59%	Contact Energy 2.08%	Contact Energy 3.07%	Westpac 6.64%
Scentre Group 5.125% 2080 1.04%	Spark 2.01%	Fisher & Paykel 1.57%	Virgin Money 2.96%	BHP 5.45%
Housing NZ 3.36% 2025 0.92%	Telstra 1.92%	Spark 1.47%	Fisher & Paykel 2.88%	NAB 5.34%
NZLGFA 1.5% 2029 0.90%	Scentre Group 5.125% 2080 1.83%	Microsoft 1.23%	Spark 2.75%	ANZ 5.00%
Wesfarmers 1.941% 2028 0.86%	Meridian 1.66%	Alphabet 1.21%	Microsoft 2.40%	Telstra 4.17%
NZLGFA 3.5% 2033 0.83%	NAB 1.32%	Telstra 1.14%	Alphabet 2.28%	CSL 3.55%
Transpower 1.735% 2025 0.77%	Goodman 1.32%	Virgin Money 1.05%	Summerset 2.24%	Santos 3.40%
ANZ Bank Float 2024 0.75%	Transurban 1.24%	Meridian 1.01%	Dr Horton 2.08%	Virgin Money 3.33%
Contact Energy 0.73%	Westpac 1.12%	Summerset 0.96%	Thermo Fisher 2.06%	Resmed 2.85%
Charter Hall 2.787% 2031 0.73%	Martin Marietta 3.2% 2051 0.88%	Westpac 0.93%	HCA Holdings 1.91%	Bank of Queensland 2.53%

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 4.47%	Seagate 4.091% 2029 1.51%	Westpac 32 Day CMD 2020 20.17%
Housing NZ 3.36% 2025 2.21%	Danaher Corp 0.45% 2028 1.45%	Port of Tauranga CD 2021 10.08%
NZLGFA 1.5% 2029 2.16%	McDonald's 3% 2024 1.39%	Meridian CD 2021 7.05%
NZLGFA 3.5% 2033 1.98%	NXP BV 4.3% 2029 1.35%	SBS CD 2021 5.04%
Transpower 1.735% 2025 1.83%	John Deere 1.75% 2024 1.30%	Auckland Airport CD 2021 5.04%
ANZ Bank Float 2024 1.79%	Crown Castle 2.25% 2031 1.26%	TSB Bank CD 2021 5.04%
Macquarie Float 2025 1.69%	John Deere 0.70% 2026 1.25%	Spark CD 2021 5.04%
Westpac 1.439% 2026 1.65%	Bank of America 1.898% 2031 1.23%	Wellington Airport CD 2021 5.03%
B & A Bank Float 2025 1.55%	Vantage Towers 0.75% 2030 1.19%	Genesis CD 2021 4.53%
Ausgrid Finance 1.814% 2027 1.54%	CBA 2.688% 2030 1.18%	Spark CD 2021 4.03%

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
Microsoft 3.90%	Fisher & Paykel 6.86%	Collins Foods 4.32%
Alphabet 3.90%	Xero 4.60%	Virgin Money 3.88%
Apple 2.91%	Mainfreight 4.54%	HUB24 3.80%
Amazon 2.91%	CSL 3.65%	Seven Group 3.63%
Paypal 2.50%	Infratil 3.58%	Sealink Travel 3.16%
Intercontinental Exchange 2.44%	Westpac 3.56%	Contact Energy 3.04%
TSMC 2.36%	NAB 3.15%	Bapcor 2.70%
LVMH 2.24%	Summerset 2.88%	IGO 2.68%
Dr Horton 2.22%	Contact Energy 2.81%	Lifestyle Communities 2.58%
Danaher 2.19%	BHP 2.67%	Resmed 2.22%

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 $33.0 million invested across our Investment Funds as at the end of June 2021.

William Curtayne
Portfolio Manager

Investment Highlight - Virgin Money UK

Value opportunity in a UK bank

Virgin Money UK is a United Kingdom bank offering a classical value investment opportunity that would have excited a young Warren Buffet.

A bank may appear an unusual choice as an investment highlight given there is no exciting new technology or structural growth story. But great investments can be found in unusual places for investors with relevant experience and a willingness to look.

A short history on Virgin Money. In 2016, National Australia Bank (NAB) spun off Clydesdale Bank, a small UK bank it had acquired back in 1989. Clydesdale was listed on the local London stock exchange and also on the Australian stock exchange due to its large Australian shareholder base (a legacy of the NAB ownership). Although the bank had a high-quality mortgage business, profits struggled due to a weak UK economy preparing for Brexit and declining interest rates. As an undersized UK bank with a predominantly Australian shareholder base there was little to excite investors and the stock became a bit of an orphan on the London and Australian stock exchanges.

In 2018 Clydesdale Bank acquired Virgin Money, a financing brand founded by Richard Branson in 1995. The combined business then rebranded as Virgin Money UK in 2019. Heading into the COVID period, the stock remained out of favour with investors, but the merger had scaled the business up to become the fifth largest bank in the UK.

COVID-19 creates an opportunity

COVID-19 hit bank stocks severely as investors anticipated large defaults on bank loans and were wary of another financial crisis like we saw in 2009. The Virgin Money share price fell from £1.90 in January 2020 to £0.72 in October 2020. At this point the company traded at only 0.25x book value and offered a medium-term dividend yield of over 25% – assuming bad debts did not wipe out the value of the business.

From there we had mostly good news. The UK Government provided bank guarantees and enormous amounts of fiscal stimulus which prevented large loan losses for banks. The vaccine announcements in November then underpinned confidence in the economic recovery. And it soon became clear that the UK had one of the most advanced vaccine rollout programs in the world which has positioned the UK to be one of the strongest performing major economies in 2022.

As a result, the Virgin Money share price climbed back to £1.98 by the end of June 2021.

Milford has followed the Virgin Money business closely as we have owned bonds issued by Clydesdale since 2016. Many of Milford's investment team have also worked in the UK and are familiar with the company and its history. This knowledge of the business has positioned us well to pick up shares in Virgin Money throughout 2020 when the deep value opportunity presented itself.

On to the next phase of recovery

Now at 0.67x book value and a medium-term dividend yield of 10% some of the value opportunity in Virgin Money has been realised. Despite this, we think Virgin Money remains a good investment for several reasons. Firstly, Virgin Money will extract cost savings opportunities from the merger of Clydesdale and Virgin Money that should increase earnings by approximately 20%. Secondly, the rapidly improving UK economy will likely see interest rates rise over the coming years. Rising interest rates are typically positive for bank earnings. And finally, we think the business remains undervalued given the improving earnings trajectory and dividend yield the business should ultimately trade at.

Virgin Money is owned broadly across Milford's funds. We also own a number of other UK banks that should also benefit from the improving UK economy.