Milford KiwiSaver Plan
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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KiwiSaver Cash Fund

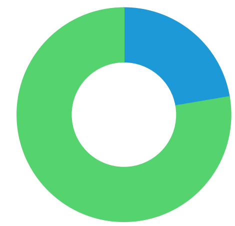
Portfolio Manager: Travis Murdoch

In June the Fund generated a return of 0.04%, 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.

Actual investment mix[1]



The actual cash held by the Fund is 22.32%. 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

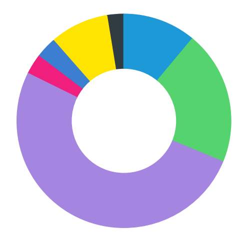
Portfolio Manager: Paul Morris

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.



The actual cash held by the Fund is 8.16%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

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

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

KiwiSaver Moderate Fund

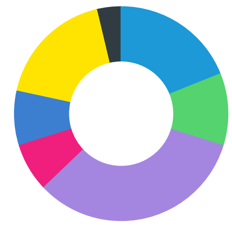
Portfolio Manager: Mark Riggall

The Fund returned 1.1% in June, bringing the one-year return to 11.7%. The Fund's strategy has remained broadly stable for the past few months. The biggest tilt is a significantly reduced exposure to interest rates as we think there is a risk interest rates rise from here. Global growth is surging and inflation with it. Despite that, the bond market has been relatively well behaved thus far, enabling other assets such as shares to perform well. Higher bond yields would pose a risk to share valuations, so the Fund retains its reduced interest rate exposure.

The bulk of the return in the month was delivered by global shares. These were led by the 'growth' companies such as online shopping platforms Shopify (+17.5%) and Amazon (+6.7%). Our local stocks picks were boosted by respirator companies ResMed (+20.8%) and Fisher & Paykel Healthcare (+4.5%) that rallied 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]



The actual cash held by the Fund is 17.05%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

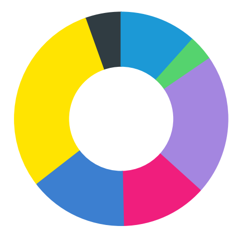
KiwiSaver Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 1.8% in June, bringing the one-year return to 18.9%. 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.



The actual cash held by the Fund is 10.34%. 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

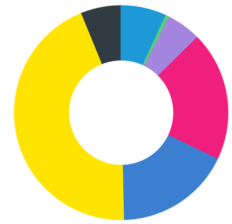
Portfolio Manager: Jonathan Windust

The Fund returned 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.

Actual investment mix[1]



- Effective Cash# 6.91%
- New Zealand Fixed Interest 0.51%
- International Fixed Interest 5.22%
- New Zealand Equities‡ 19.54%
- Australian Equities 17.49%
- International Equities 44.13%
- Listed Property 6.20%
- Other* 0%

The actual cash held by the Fund is 7.69%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

KiwiSaver Aggressive Fund

Portfolio Manager: Stephen Johnston

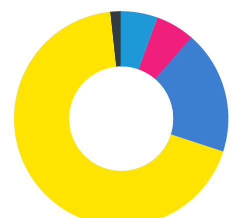
The Fund gained 2.9% in June. This month we saw a rotation out of more cyclical areas of the market that benefit from economies reopening, to growth stocks, with the technology sector the standout.

Key positive contributors for the month were dominated by US technology companies including Microsoft (+8.5%), Google (+3.9%) and Amazon (+6.7%). During the month, Microsoft became the second company after Apple, to join the exclusive $2 trillion market capitalisation club. Microsoft, like Apple, has been a big beneficiary of the digital boom during the pandemic, with strong growth in their cloud computing platform Azure, and business tools including Microsoft Office and Teams. Another key contributor during June was US healthcare giant Thermo Fisher (+7.5%), also a COVID-19 beneficiary, as one of the leading providers of testing kits and vaccine-related products. While we expect virus-related revenue to slow, Thermo remains well-positioned longer term to benefit from increased healthcare spending globally, given its industry position and breadth of products.

Detractors from performance included US hospital operator HCA (-3.5%), on profit taking after a strong run. US bank JP Morgan (-5.3%) also underperformed as investors rotated away from the banking sector. The company remains the most dominant bank in the US, is well capitalised, and loan growth should accelerate as the economy strengthens.

The biggest positive contributor in Australasia was accounting software provider Xero (+3.4%), while key detractors included gold miners Northern Star Resources (-16.4%) and Evolution Mining (-16.8%).

Overall, the backdrop remains favourable given supportive policy and accelerated vaccine rollout. In terms of risks, we continue to closely monitor the spread of the Delta variant of the virus and the effectiveness of the vaccines. The other key risk to the outlook is an inflation surprise that forces central banks to accelerate interest rate rises. We continue to look for opportunities focused on our key investment themes.



- Effective Cash# 5.52%
- International Fixed Interest 0.06%
- New Zealand Equities 5.83%
- Australian Equities 18.63%
- International Equities 68.23%
- Listed Property 1.73%
- Other* 0%

The actual cash held by the Fund is 9.59%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

‡Includes unlisted equity holdings of 1.01% *Other includes currency derivatives used to manage foreign exchange risk.

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

Fund Performance

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	Since Fund inception (p.a.)	Unit price $	Fund size $
KiwiSaver Cash Fund	0.04%	0.39%	–	–	0.38%	1.0048	16.4 M
KiwiSaver Conservative Fund	0.51%	6.75%	5.79%	5.95%	8.37%	1.9874	169.7 M
KiwiSaver Moderate Fund	1.07%	11.73%	–	–	15.20%	1.1940	52.8 M
KiwiSaver Balanced Fund	1.76%	18.92%	10.29%	10.43%	10.52%	2.9581	680.3 M
KiwiSaver Active Growth Fund^	1.79%	27.06%	12.49%	12.88%	13.09%	5.0482	2,556.6 M
KiwiSaver Aggressive Fund	2.89%	29.85%	–	–	19.79%	1.4099	546.5 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. As from 1 July 2021, this fee will not longer be charged.
Inception dates for the Funds: KiwiSaver Active Growth Fund: 1 October 2007, KiwiSaver Balanced Fund: 1 April 2010, KiwiSaver Conservative Fund: 1 October 2012, KiwiSaver Aggressive Fund: 1 August 2019, KiwiSaver Cash Fund: 27 March 2020, KiwiSaver Moderate Fund: 27 March 2020.
^This is based on the performance of the AonSaver AMT Milford Aggressive Fund until 31 March 2010 and the Milford KiwiSaver Active Growth Fund from 1 April 2010.

Key Market Indices

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)
S&P/NZX 50 Gross Index (with imputation credits)	2.79%	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

Milford KiwiSaver plan is the proud winner of multiple awards:

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 19.93%	NZLGFA 1.5% 2026 1.93%	Contact Energy 1.29%
Port of Tauranga CD 2021 9.96%	Scentre Group 5.125% 2080 1.03%	NZLGFA 1.5% 2026 1.01%
Meridian CD 2021 6.97%	Housing NZ 3.36% 2025 0.92%	Spark 0.93%
SBS CD 2021 4.98%	NZLGFA 1.5% 2029 0.90%	Scentre Group 5.125% 2080 0.85%
Auckland Airport CD 2021 4.98%	Wesfarmers 1.941% 2028 0.85%	Fisher & Paykel 0.80%
TSB Bank CD 2021 4.98%	NZLGFA 3.5% 2033 0.82%	Telstra 0.77%
Spark CD 2021 4.98%	Transpower 1.735% 2025 0.76%	Microsoft 0.70%
Wellington Airport CD 2021 4.98%	ANZ Bank Float 2024 0.74%	Alphabet 0.69%
Genesis CD 2021 4.48%	Contact Energy 0.73%	Meridian 0.68%
Spark CD 2021 3.98%	Charter Hall 2.787% 2031 0.73%	NAB 0.58%

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 2.09%	Contact Energy 3.08%	Microsoft 2.68%
Fisher & Paykel 1.61%	Virgin Money 2.97%	Alphabet 2.67%
Spark 1.47%	Fisher & Paykel 2.89%	Thermo Fisher 2.07%
Microsoft 1.23%	Spark 2.76%	Mastercard 1.85%
Alphabet 1.21%	Microsoft 2.41%	Visa 1.71%
Telstra 1.13%	Alphabet 2.29%	Amazon 1.69%
Virgin Money 1.06%	Summerset 2.25%	TSMC 1.68%
Meridian 1.01%	Dr Horton 2.09%	Dr Horton 1.63%
Summerset 0.97%	Thermo Fisher 2.07%	S&P Global 1.60%
Mainfreight 0.94%	HCA Holdings 1.92%	HCA Holdings 1.55%

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

Milford staff have approximately $15.4 million invested in the Milford KiwiSaver Plan 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.

Milford KiwiSaver Plan members the most satisfied – 4 years in a row

We were extremely happy to learn that Milford KiwiSaver Plan members are still the most satisfied KiwiSaver members. For the fourth year in a row the Milford KiwiSaver Plan has been named the *Consumer NZ People's Choice* KiwiSaver Plan.

Murray Harris
Head of KiwiSaver & Distribution

Milford KiwiSaver Plan members came out on top of the 2021 Consumer NZ survey, with 85% overall satisfaction. The average satisfaction rating across the KiwiSaver industry was a poor 55%, with the lowest provider scoring just 43% overall satisfaction.

We were very pleased to see our members scored us highly for access to your account information (93%) and keeping you up to date about your KiwiSaver (84%). We have worked particularly hard over the past year to continue improving how we communicate with you, and what we communicate, as well as improving our client portal and mobile App.

Rest assured we'll be striving to do even better in the coming year.

We've removed the Annual Member Administration Fee

And the good news continues with the removal of the Annual Member Administration Fee for all Milford KiwiSaver Plan members from 1 July.

You might recall in September 2019 we removed this administration fee for members aged under 21 and 65 and over. In January this year we also reduced the fee from $36 per year to $18 for all other members.

We have now removed this fee altogether as we continue to grow our KiwiSaver membership, and we are delighted to share the benefits of this with you, our members.

We continually reinvest a portion of the fees you pay into improving your client experience and maintaining our award-winning investment returns and member service. Some examples of this over the past year are our online KiwiSaver Digital Advice, Forecast My Balance and Spend My KiwiSaver tools, improvements to our client portal and mobile App, livestream events and continuing to add expertise to our investment team in both Auckland and Sydney. We thank you for your ongoing support of Milford. We will continue to regularly review our fees and aim to further improve our ongoing service to you.