Milford KiwiSaver Plan
Monthly Review August 2021

Glass half empty?

Our Funds tracked broadly higher in July as both shares and bonds rallied in the month.

Investors can often be a glass half empty bunch. July saw investors concerned with a slowdown in global growth as many economic indicators rolled over and a Delta driven 3rd Covid wave loomed. These concerns look overblown. A key reason for a peak in growth is the fact that economies simply can't grow any faster. Red hot demand has cleared out business inventories, supply chains are stretched, and companies are struggling to hire employees fast enough.

The boom will likely continue, and although the accompanying surge in inflation will subside, it is likely to remain elevated for some time. Despite this, market expectations of future interest rates remain extraordinarily low. We think bond yields (effectively market expectations of future interest rates) are way too low and should rise. In the meantime, paltry returns on offer from government bonds make shares that much more attractive. A higher allocation to shares is enabling our Funds to access those good investment opportunities we continue to find.

Last month we saw global companies report 2nd quarter earnings, helping us understand how companies are dealing with the current environment. A standout performer in the month was HCA Healthcare which benefitted from a rebound in elective surgeries. Profits leapt 192% vs a year ago and the stock was up over 20% in July.

Shares in NZ and Australia were effectively treading water ahead of profit statements due to be released in August. Transport company Mainfreight held its AGM in July and delivered a very strong trading update with profits up 97% vs a year ago. Mainfreight is a quality operator but its results also highlight the strength of the local and global economy.

Although the backdrop remains favourable, we are vigilant to the risks. Consumers are facing rising prices, and this could dampen demand. Similarly, companies are dealing with rising costs and if they can't pass these costs on then profit margins could shrink. Outcomes will differ by industry and by company and with the favourable backdrop in place, we continue to find attractive shares to invest in.

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KiwiSaver Conservative Fund

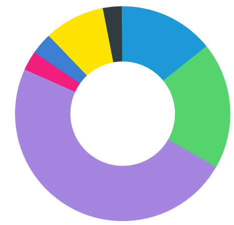
Portfolio Manager: Paul Morris

Bonds and shares contributed positively again to a 0.4% return in July but, as per in June, beneath the surface performance was more mixed. Bonds did benefit from the tailwind of a further fall in market interest rates. Unfortunately, their contribution to the Fund's return was diminished by (i) its reduced exposure to interest rates (as we feared rates would rise) and (ii) a modicum of underperformance in some of its lower rated corporate bonds.

It was difficult to call out a clear trend across the Fund's shares. Company earnings have generally been strong although valuations are no longer cheap, however lower interest rates have helped. The Delta variant has been a headwind, notably for some Australian shares given lockdowns. Australian property companies Goodman Group (+6.9%) and Charter Hall (+5.0%) were however impressive exceptions. The Fund's global shares were generally stronger and included strong performance from US hospital HCA (+20.1%) post an impressive result, and its global water utilities (up over 10%). The Fund also had a small allocation to Sydney Airport which gained 34.9% after a takeover bid.

Looking forward, ongoing growth, historically low interest rates and excess cash liquidity support a reasonable outlook for returns, albeit short-term volatility may increase. We remain wary of bonds given elevated valuations and the risks of higher interest rates. While we anticipate higher interest rates, our base case sees a lower eventual peak to this interest cycle which should support shares. We therefore retain a higher allocation to shares than the long-term neutral.

Actual investment mix[1]



- Effective Cash# 14.27%
- New Zealand Fixed Interest 19.09%
- International Fixed Interest 48.31%
- New Zealand Equities 2.93%
- Australian Equities 3.24%
- International Equities 9.10%
- Listed Property 2.82%
- Other* 0.24%

The actual cash held by the Fund is 10.93%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

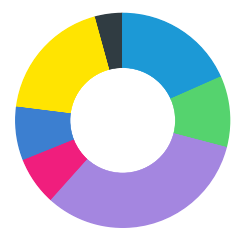
KiwiSaver Moderate Fund

Portfolio Manager: Mark Riggall

The Fund returned 0.5% in the month with a 1-year return of 10.8%. Both bonds and shares were higher in July, helping Fund returns. The majority of the returns came from shares, which the Fund retains a modest overweight to. Although bonds performed well too, the Fund has reduced exposure to these.

There are signs that global growth is peaking. This is largely due to constraints on supply of goods and labour, as opposed to a cooling of the red-hot demand from consumers as they emerge from lockdowns. The main implication of peaking growth has been a fall in government bond yields. We have expected the opposite to happen, and still believe that bond yields are way too low given the growth and inflation backdrop. Nonetheless, low bond yields increase our conviction in our key positions, bonds remain relatively unattractive, whilst share valuations are supported. That's not to say we expect share markets to continue marching higher, but increased exposure to shares enables the Fund to benefit from the good stock opportunities that we continue to find.

This month, holdings such as Goodman Group (+6.9%) and Charter Hall (+5.0%) were key beneficiaries of low bond yields. On the global side, HCA Healthcare reported stellar results and the stock was up 20.1%. Elevated exposure to shares is appropriate given our outlook. Sharply higher bond yields remain the key risk, but the Fund's reduced exposure to bonds helps mitigate against this outcome.



- Effective Cash# 18.37%
- New Zealand Fixed Interest 10.71%
- International Fixed Interest 32.54%
- New Zealand Equities^ 7.27%
- Australian Equities 8.09%
- International Equities 18.75%
- Listed Property 4.11%
- Other* 0.16%

The actual cash held by the Fund is 15.34%. 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 0.07% *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 Balanced Fund

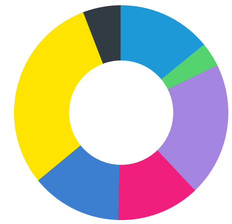
Portfolio Manager: Mark Riggall

The Fund returned 0.7% in the month with a 1-year return of 17.5%. There are signs that global growth is peaking. This is largely due to constraints on supply of goods and labour, as opposed to a cooling of the red-hot demand from consumers as they emerge from lockdowns.

The main implication of peaking growth has been a fall in government bond yields. We have expected the opposite to happen, and still believe that bond yields are way too low given the growth and inflation backdrop. Nonetheless, low bond yields increase our conviction in our key positions, bonds are relatively unattractive, whilst share valuations are supported. That's not to say we expect share markets to continue marching higher, but increased exposure to shares enables the Fund to benefit from the good stock opportunities that we continue to find.

This month, top 10 holding HCA Healthcare reported stellar results and the stock was up 20.1%. Fellow top 10 holding Mainfreight was up 7.4% on the back of a strong trading update. Elevated exposure to shares is appropriate given our outlook, but it does leave the Fund more vulnerable to falls in shares should something unforeseen arise. Sharply higher bond yields remain the key risk, but the Fund's reduced exposure to bonds helps mitigate against this outcome.

Actual investment mix[1]



The actual cash held by the Fund is 11.12%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

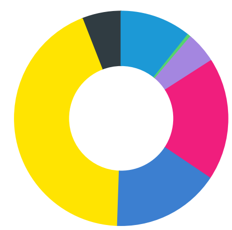
KiwiSaver Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund rose 0.9% in July with strong returns from global (+1.7%) and Australian share markets (+1.1%) tempered by a negative return on the New Zealand share market (-0.5%). Global shares continue to benefit from low interest rates and generally strong company results released during the month. The New Zealand market faces the headwind of potential cash rate rises which are expected by the market to occur this year.

Key positives during the month included Australian mining companies BHP (+10.1%) and IGO (+22.0%), US hospital operator HCA Healthcare (+20.1%) and the parent company of Google, Alphabet (+7.9%). IGO is a miner of Lithium, Copper and Nickel which are all materials used in batteries to power electric vehicles. Its shares rose following the recent completion of the purchase of a joint venture which owns a world class lithium mine in Australia. HCA and Google rose after reporting strong earnings during the month with quarterly profits rising 192% and 169% respectively from the same quarter in the previous year. Both of these stocks have performed very well over the last year with HCA up 97% and Google up 82%.

The outlook for shares remains supported by the prospect of strong economic growth, robust 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 and the Fund has a higher-than-normal exposure to shares, with lower weights in fixed income where we believe prospective returns are unattractive. We continue to focus on company selection and believe there continue to be good opportunities to add value for investors.



The actual cash held by the Fund is 9.78%. 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 0.14% ‡Includes unlisted equity holdings of 0.83% *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 Aggressive Fund

Portfolio Manager: Stephen Johnston

The Fund gained 2.2% in July. The MSCI World index rose for a sixth consecutive month buoyed by a very strong second quarter earnings season, particularly in the US.

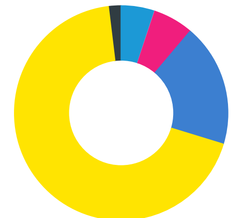
A key positive contributor for the month was US hospital operator HCA (+20.1%) after reporting strong second quarter earnings that beat expectations as patient volumes in the US recovered. Encouragingly, HCA raised its earnings guidance for the second time in 2021. Alphabet (parent company of Google) continued its strong run (+7.9%) and is up a remarkable 54.4% year-to-date. Second quarter results were very impressive with faster than expected digital advertising growth. US life sciences giant Thermo Fisher gained over 7.0% for a second consecutive month supported by robust second quarter results with management increasing organic revenue guidance for 2021.

Detractors from performance included Chinese internet titan Tencent (-18.0%), that was hurt by further regulatory tightening in China. We continue to monitor regulatory developments closely.

A positive contributor in Australasia was nickel and lithium miner IGO (+22.0%), a key beneficiary of the growth in electric vehicles. Australian bank Westpac (-5.0%) detracted from performance.

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 would be an inflation surprise that forces central banks to accelerate interest rate rises. We continue to look for opportunities focused on our key investment themes.

Actual investment mix[1]



- Effective Cash# 5.08%
- International Equities 68.36%
- International Fixed Interest 0.06%
- Listed Property 1.93%
- New Zealand Equities 6.06%
- Other* 0%
- Australian Equities 18.51%

The actual cash held by the Fund is 8.04%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

KiwiSaver Cash Fund

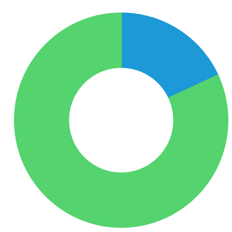
Portfolio Manager: Travis Murdoch

In July 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.

Short-dated NZ Dollar bank bills, a reflection of interbank funding levels, increased during the month and reached their highest level in over a year.

The market remains focused on the upcoming RBNZ OCR decision in mid-August and is attaching a strong probability of an OCR hike at this time given the resilience and strength of the NZ economy versus what was previously feared. The increase is benefitting the Fund by increasing the interest rates into which it can now progressively reinvest. That said, 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 continue to cap the yields/interest rates available and as we previously discussed, diminish the excess return over the OCR the Fund can generate over the near 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# 18.09%
- Other* 0%
- New Zealand Fixed Interest 81.91%

The actual cash held by the Fund is 18.09%. 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.

Fund Performance

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	Since Fund inception (p.a.)	Unit price $	Fund size $
KiwiSaver Conservative Fund	0.41%	5.81%	5.79%	5.73%	8.34%	1.9956	175.6 M
KiwiSaver Moderate Fund	0.54%	10.75%	—	—	14.64%	1.2004	61.1 M
KiwiSaver Balanced Fund	0.72%	17.45%	10.27%	9.91%	10.50%	2.9792	716.8 M
KiwiSaver Active Growth Fund^	0.90%	24.64%	12.47%	12.18%	13.08%	5.0935	2,656.0 M
KiwiSaver Aggressive Fund	2.19%	27.83%	—	—	20.17%	1.4407	607.7 M
KiwiSaver Cash Fund	0.03%	0.40%	—	—	0.38%	1.0051	17.6 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 fgures 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: 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)	-0.46%	8.04%	13.06%	12.45%	14.79%
S&P/ASX 200 Accumulation Index (AUD)	1.10%	28.56%	9.48%	10.05%	8.29%
S&P/ASX 200 Accumulation Index (NZD)	-0.88%	25.78%	8.19%	10.03%	7.68%
MSCI World Index (local currency)*	1.71%	34.67%	14.16%	14.19%	11.56%
MSCI World Index (NZD)*	1.91%	28.92%	13.54%	15.04%	13.83%
S&P/NZX 90-Day Bank Bill Rate	0.01%	0.29%	1.10%	1.48%	1.99%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	1.24%	0.23%	5.01%	3.12%	3.75%
S&P/NZX NZ Government Bond Index	1.14%	-3.35%	3.56%	2.92%	4.44%

*With net dividends reinvested

Milford KiwiSaver plan is the proud winner of multiple awards:

4 YEARS RUNNING 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 Conservative Fund	KiwiSaver Moderate Fund	KiwiSaver Balanced Fund
NZLGFA 1.5% 2026 1.85%	Contact Energy 1.19%	Contact Energy 1.83%
Housing NZ 3.36% 2025 0.88%	NZLGFA 1.5% 2026 1.00%	Fisher & Paykel 1.62%
NZLGFA 1.5% 2029 0.87%	Fisher & Paykel 0.85%	Alphabet 1.20%
Wesfarmers 1.941% 2028 0.82%	Telstra 0.80%	Spark 1.19%
NZLGFA 3.5% 2033 0.80%	Spark 0.80%	Microsoft 1.18%
Transpower 1.735% 2025 0.73%	Alphabet 0.72%	Telstra 1.14%
Charter Hall 2.787% 2031 0.70%	Microsoft 0.71%	Virgin Money 1.05%
ANZ Bank Float 2024 0.70%	Meridian 0.66%	HCA Holdings 0.97%
John Deere 1.75% 2024 0.66%	HCA Holdings 0.61%	Mainfreight 0.95%
Macquarie Float 2025 0.66%	NAB 0.58%	Meridian 0.92%

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 Active Growth Fund	KiwiSaver Aggressive Fund	KiwiSaver Cash Fund
Fisher & Paykel 3.08%	Microsoft 2.69%	Westpac 32 Day CMD 2020 19.64%
Virgin Money 3.03%	Alphabet 2.66%	ASB Bank 0.62% 2021 11.77%
Contact Energy 2.83%	Mastercard 2.07%	Port of Tauranga CD 2021 8.34%
Dr Horton 2.33%	Thermo Fisher 2.02%	SBS CD 2021 7.35%
Spark 2.27%	Visa 2.00%	Wellington Airport CD 2021 6.86%
Alphabet 2.18%	TSMC 1.76%	Spark CD 2021 4.90%
Microsoft 2.15%	HCA Holdings 1.70%	Auckland Airport CD 2021 4.90%
Thermo Fisher 2.10%	S&P Global 1.65%	Genesis CD 2021 4.41%
Summerset 2.07%	Dr Horton 1.59%	Spark CD 2021 3.92%
HCA Holdings 1.97%	Amazon 1.49%	Mercury CD 2021 3.92%

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 $16.6 million invested in the Milford KiwiSaver Plan as at the end of July 2021.

Brooke Bone
Investment Director

Investment Highlight

CORETEX
Driving Intelligence

Coretex Limited is a privately owned NZ company that operates internationally in the heavy vehicle telematics sector. Coretex installs a hardware unit, a little bigger than a smart phone, into the cab of a heavy truck to enable that truck to communicate directly with its head office with information about the engine, how the driver is driving and often about the condition of the load onboard. It can provide real time driver feedback or notification of an incident.

These systems are crucial to manage modern fleets, which are sometimes as large at 10,000 trucks. In recent years, cameras have been added as another layer of sophistication to verify delivery or incidents.

Coretex has built its reputation on dealing with complex transport verticals, such as concrete delivery, that need deep knowledge and integration into the core enterprise planning systems of their clients.

Coretex will either sell or lease the hardware and charge an ongoing, recurring, monthly fee per truck.

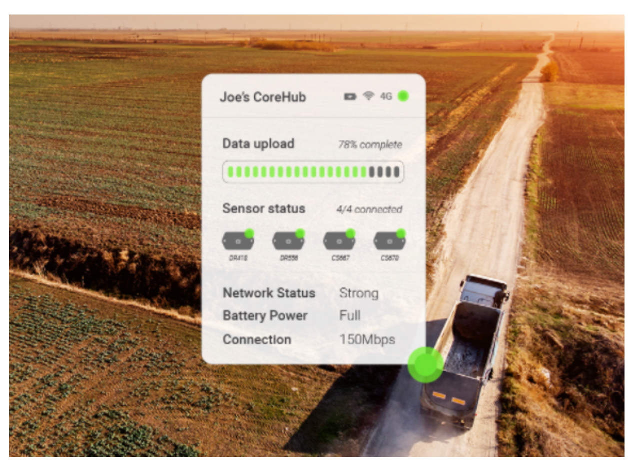
Why did Milford invest in Coretex?
Milford first invested in Cortex in 2015. At that time, the technology was not fully penetrated in transport fleets in New Zealand, Australia and the United States. It was forecast that this drive to nearly full penetration was going to see a wave of fleets needing the units. We also theorised that there would need to be a second (and potentially third) wave of uptake as fleets and supply chains become more digitised and sought more sophisticated telematics units to provide greater visibility into the supply chains of large organisations.

How was Coretex impacted by COVID-19?
Coretex was in a fortunate position during the pandemic, with its customers generally considered 'essential services' so they could continue to operate. Coretex had over 60% of revenues that were recurring in nature (and this percentage increased through the pandemic). However, new sales activity was effectively paused for a nine-month period, resulting in overall revenue declining for FY21. During this period, Coretex lifted investment in its next generation hardware and software platforms so that, when markets for new products reopened in 2021, they were prepared to re-accelerate their growth.

The conditional sale of Coretex to NZX and ASX listed EROAD was announced in July. Why did Milford sell?
The global telematics market is very large and has a number of players who are 10 to 20 times the size of Coretex. That size enables massive scale benefits in terms of sales and marketing and product development. Coretex has been a technical leader in certain niche transport verticals, however the newly developed CoreHub product has broader application across the entire market, particularly in the US and Australia. The sale to EROAD will enable the sales and marketing of the CoreHub product to be accelerated, particularly in the US and Australia – geographies where EROAD currently has a limited footprint.

The combined organisation, with over 500 staff, will also be able to accelerate further technology development and compete head-to-head with the largest players in the industry. Assuming the sale receives the necessary regulatory approvals, Milford will receive cash and shares in EROAD as consideration for the sale of its shareholding in Coretex.

This will represent an attractive premium on the cost of our initial investment and by retaining a shareholding in the combined entity we look forward to an exciting future for the combined organisation.



Don't put all of your eggs into one basket

You've probably heard the old investment saying, "don't put all of your eggs in one basket". But what does this mean and how does it relate to your KiwiSaver investment?

Eachann Bruce
Financial Adviser

What is diversification?
Diversification is spreading your money (or 'eggs') across different types of assets such as shares, bonds, property and cash (or 'baskets'). Different assets rise and fall at different times. Spreading your money across a number of companies and assets can reduce your risk. If one investment performs poorly, others might do well. Managed funds, like your KiwiSaver fund are an easy way to achieve diversification within your portfolio.

Your KiwiSaver investment is likely to have exposure to some, if not all of the following assets: cash, fixed interest (bonds) and equities (shares). It could also have exposure to alternative assets such as private equity. These assets will be further diversified across different industry sectors and geographic markets.

Diversification reduces your risk
History shows that a well-diversified portfolio spread across many different asset types and geographic regions, will generally experience lower volatility, or fluctuations in value, because the different asset classes tend to behave differently during different stages of the economic and market cycle. This helps smooth out the peaks and troughs of investment returns over time.

Having investments in only one or a few of these asset classes, particularly the more speculative ones, could give investors a sense of euphoria when markets favour those assets. But also, sleepless nights in times when those assets are falling.

Active fund management
Trusting the Milford KiwiSaver Plan to manage this diversification for you can help you to get on track and achieve your desired retirement goals. We adopt an active management approach, our investment team is nimble and make adjustments along the way. This includes looking to tilt your fund towards asset classes with favourable tailwinds, or away from asset classes that potentially may incur unfavourable headwinds.

The key decision for you, the investor, is to choose the appropriate fund that suits your tolerance to risk and investment time horizon whilst trying to achieve your KiwiSaver goal. The Milford KiwiSaver Plan offers advice to help members identify the right fund, to help you achieve your KiwiSaver goal.*

KiwiSaver Digital Advice

If you'd like to speak with a Milford KiwiSaver Plan Financial Adviser you can request contact by emailing: kiwisaveradvice@milfordasset.com

Alternatively, you can use our **Milford KiwiSaver Plan Digital Advice Tool**, which you can access through the "Tools and Calculators" menu in the Milford Client Portal.

*Advice is limited to helping members achieve their First-Home Withdrawal or Retirement goal.
For more information about getting advice at Milford, see milfordasset.com/getting-advice