Milford KiwiSaver Plan
Monthly Review September 2021

Glass half full

Share markets across the world had a solid August. Whilst bonds posted modest losses in the month, fund performance was broadly strong.

The NZX 50 return of 5% this month seems remarkable in the face of our latest Covid outbreak and subsequent level 4 lockdown. However, the NZ market has been a notable underperformer this year. Recently, this was likely due to investor fears over Reserve Bank rate hikes. The Covid outbreak put these on hold, sending investors back into NZ shares.

NZ companies also posted strong company earnings in August, highlighting the quality companies we have on the local market. Profit margins have remained intact despite notable cost increases. Strong performers for Milford funds were Mainfreight, EBOS and Summerset – all delivering gains of around 15-17% on the back of solid results. Although the outcome of the current virus outbreak is unknowable, it is unlikely that we will see a material impact on the NZ share market.

Shares are benefitting from the lack of alternative investments. With yields on bonds continuing to languish at depressed levels, global investors are pouring funds into share markets. This was evident in the strong performance of Australian dividend paying stocks with the Australian property sector up over 6%. Fund performance was also boosted by solid gains in the quality growth stocks such as Google, Microsoft and Amazon, all up around 4-7%. Banks also had a good month, particularly in the UK as that economy booms post their reopening.

As we look ahead, the path is less certain. Global economic growth has peaked, the Chinese economy is suffering from a self-induced slowing, inflation pressures remain high and bottlenecks in supply chains are constraining activity. Most concerning, global consumer confidence appears to be waning, perhaps due to fears over the Delta variant or frustration over rapidly rising purchasing prices of almost everything.

But stand back a little, and the medium-term outlook remains very rosy. Household savings are high, governments and central banks continue to stoke the economy, companies are well placed to increase profits. The global Delta surge is subsiding, and consumer confidence will likely return. We think the recovery still has legs.

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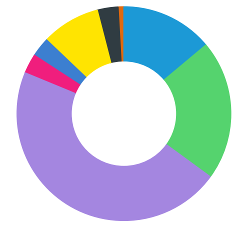
KiwiSaver Conservative Fund

Portfolio Manager: Paul Morris

The Fund returned a moderate gain of 0.7% over the month. The return was held back by mixed returns from bonds as market interest rates generally moved incrementally higher (bond prices lower). This was however more than offset by a strong month for the Fund's shares which continue to benefit from ongoing strong company earnings and historically low interest rates.

The Fund's global shares continued their positive performance even though Delta is impacting short-term economic activity. August also saw impressive strength across the Fund's Australasian shares. This included notable gains from Australasian property shares with companies generally managing well through lockdowns. There was strong performance from the Fund's NZ shares. Mainfreight rose again, helped by inclusion in a global index, while the NZ retirement sector shares jumped on strong results. Looking forward, ongoing above trend growth and historically low interest rates continue to support our reasonable outlook for returns, albeit near term volatility may increase. We remain wary of bonds given the risk of higher interest rates, retaining lower interest rate exposure. That said, our base case sees a lower eventual peak to this interest rate cycle. Combined with a supportive earnings outlook we maintain a slightly higher allocation to shares relative to the long-term neutral.

Actual investment mix[1]



The actual cash held by the Fund is 10.86%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

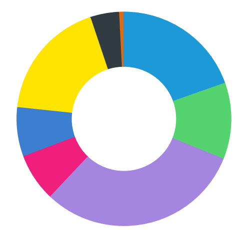
KiwiSaver Moderate Fund

Portfolio Manager: Mark Riggall

The Fund returned 1.3% in the month with a 1-year return of 10.5%. Share markets continue to drive higher and August saw strong gains in shares across the board. Despite a lower neutral allocation to shares, returns from shares are delivering the bulk of performance for the Fund. Whilst bond returns in the past year have been positive, this month they detracted slightly from Fund returns.

NZ shares were a standout, with a strong market return, as well as good stock selection, boosting returns. On the back of reporting better than expected profit outcomes, key holdings of Summerset and EBOS delivered gains of 17.1% and 15.9% respectively. With returns on bonds so low, we continue to find attractive opportunities from investing in high quality dividend paying stocks. Last month saw other investors follow suit and the Australian property sector delivered gains of over 6%.

We continue to find reasonably valued opportunities in shares to invest in. Coupled with the constructive medium-term outlook, the Fund is likely to remain fully invested in shares for the foreseeable future. We are wary that returns on offer from bonds look very low. They will likely guard the Fund against the volatility that shares can deliver and so will remain a core investment for the Fund.



The actual cash held by the Fund is 16.46%. 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 0.06% *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

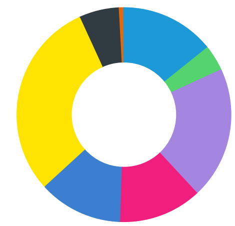
Portfolio Manager: Mark Riggall

The Fund returned 2.2% in the month with a 1-year return of 17.3%. Share markets continue to drive higher and August saw strong gains in shares across the board, helping deliver good fund performance.

NZ shares were a standout, with a strong market return as well as good stock selection boosting returns. On the back of reporting better than expected profit outcomes, key holdings of Summerset and EBOS delivered gains of 17.1% and 15.9% respectively. With returns on bonds so low, we continue to find attractive opportunities from investing in high quality dividend paying stocks. Last month saw other investors follow suit and the Australian property sector delivered gains of over 6%.

On the global side, we continue to see solid returns from high quality growth stocks such as Microsoft (+6.2%), Google (+7.6%) and Amazon (+4.3%). We continue to find reasonably valued opportunities in shares to invest in. Coupled with the constructive medium-term outlook, the Fund is likely to remain fully invested in shares for the foreseeable future. That being said, we are constantly reassessing the outlook and will make changes accordingly. Our biggest concern is the risk of higher interest rates and policy tightening from governments and central banks. The Fund is positioned to mitigate against this risk by maintaining an underweight position in bonds.

Actual investment mix[1]



- Effective Cash# 14.25%
- New Zealand Fixed Interest 3.88%
- International Fixed Interest 19.97%
- New Zealand Equities† 12.38%
- Australian Equities 12.72%
- International Equities 29.96%
- Listed Property 5.98%
- Other* 0.86%

\# The actual cash held by the Fund is 10.59%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

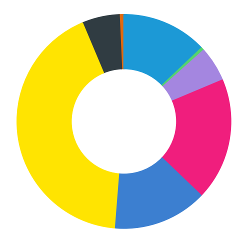
KiwiSaver Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund returned 2.5% in August with continued strong gains from share markets; global (+2.7%), New Zealand (+5.0%) and Australia (+2.5%). Returns from fixed income were relatively flat. Global shares continue to benefit from low interest rates and generally strong company results released during the month. The New Zealand market got a boost from the delay in the expected rate hike from the Reserve Bank and continued high demand from investors.

Key positives during the month included New Zealand companies EBOS (+18.9%) and Summerset (+17.1%) which both reported strong earnings the month. EBOS continued to report reliable results with earnings up 15.5%. Summerset's underlying earnings rose 67% benefitting from a strong housing market and good sales. Globally, UK Banks Virgin Money (+7.2%) and Natwest Group (+6.7%) and Technology companies Google (+7.6%), Microsoft (+6.2%) and Intuit (+6.8%) had a positive month. Intuit is a US company providing tax and accounting software to individuals and small businesses. During the month we added a position in US company Analog Devices which designs and manufactures computer chips used in analog and digital signal processing. The company's products are used in industrial, communications, audio, automotive and battery management. We believe Analog Devices is well positioned to benefit from strong growth as companies continue to make devices smarter requiring more and more computer chips.

The outlook for shares remains supported by the prospect of robust economic growth, healthy 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 upon company selection and believe there continue to be good opportunities to add value for investors.



- Effective Cash# 12.93%
- New Zealand Fixed Interest 0.46%
- International Fixed Interest 5.28%
- New Zealand Equities‡ 18.50%
- Australian Equities 14.09%
- International Equities 42.39%
- Listed Property 5.64%
- Other* 0.71%

\# The actual cash held by the Fund is 10.29%. 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 0.13% ‡Includes unlisted equity holdings of 0.76% *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 2.6% in August. Global share markets continued to strengthen on robust earnings reports, as well as reassurance from the world's central banks that they will take a measured approach when reducing quantitative easing and raising interest rates.

The US technology giants Microsoft, Alphabet (parent company of Google) and Apple delivered another strong month, reflecting the power of their business models. Alphabet (+7.6%) rose for an eighth consecutive month and has now generated an astonishing 66% return year to date. Microsoft (+6.2%) also powered ahead, a key beneficiary of the digitalisation trend globally. As companies and consumers move online, there is strong demand for Microsoft products such as cloud-based versions of the Office suite. Despite the outperformance, valuations of these technology giants still look reasonable relative to the broader market.

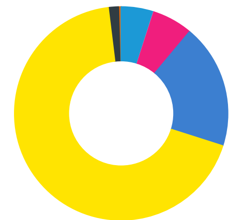
Another key positive contributor for the month was our favourite Indian bank, HDFC Bank, which made a strong recovery in August (+11.0%), as the Indian economy turns the corner and loan growth looks set to accelerate. MercadoLibre (+19.0%), the Latin American e-commerce and digital payments giant, soared in August with business momentum remaining strong as the company rolls out new products and improves its logistic network.

Detractors from performance included payments network Mastercard (-10.3%), on increased competition, and luxury goods company LVMH (-7.0%), on a potential slowdown in luxury spending due to regulatory tightening in China.

In Australasia, transport company Mainfreight was a standout (+14.6%), as well as Fisher & Paykel Healthcare (+4.9%). Australian conglomerate Seven Group (-8.6%) gave back some of July's strong gains.

Overall, the backdrop remains favourable given supportive policy and the accelerated vaccine rollout. In terms of risks, we continue to closely monitor the spread of the Delta variant 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]



The actual cash held by the Fund is 8.56%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

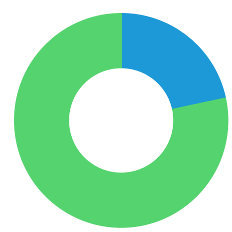
KiwiSaver Cash Fund

Portfolio Manager: Travis Murdoch

In August the Fund generated a return of 0.05%, 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, may be ending the month of August close to unchanged but that does not reflect the elevated levels we saw during the first half of the month. This was due to the market increasingly pricing further OCR increases over the coming months given the positive domestic economic picture at that time. This upward movement was quickly reversed when NZ went into a level 4 lockdown on the eve of the August RBNZ Monetary Policy Statement. That being said, recent commentary from the RBNZ continues to ultimately point to higher interest rates. This is in line with our base case view for a higher OCR, albeit timing is less certain given the recent COVID-19 outbreak and the resulting potential future economic impact it will have.

We continue to observe that excess liquidity in the financial system (exacerbated by the RBNZ's Funding for Lending Programme or FLP) means a lot of money is still chasing short-dated assets. That is likely to cap the yields/nterest rates available and as we previously discussed potentially diminish the excess return over the OCR the Fund can generate over the near and medium term. We would however reiterate that these developments have not changed the portfolio management of the Fund which remains focused on maintaining a low-risk strategy, built on a diversified portfolio of cash, short-dated debt securities and term deposits, to protect capital.



The actual cash held by the Fund is 21.65%. 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	0.72%	5.40%	5.74%	5.76%	8.34%	2.0099	176.8 M
KiwiSaver Moderate Fund	1.25%	10.47%	–	–	14.70%	1.2153	66.9 M
KiwiSaver Balanced Fund	2.17%	17.30%	10.56%	10.32%	10.63%	3.0432	755.9 M
KiwiSaver Active Growth Fund^	2.52%	23.46%	12.77%	12.58%	13.19%	5.2204	2,778.8 M
KiwiSaver Aggressive Fund	2.57%	24.77%	–	–	20.73%	1.4776	667.7 M
KiwiSaver Cash Fund	0.05%	0.41%	–	–	0.39%	1.0056	15.9 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: 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)	5.00%	11.42%	13.26%	13.40%	15.41%
S&P/ASX 200 Accumulation Index (AUD)	2.50%	28.15%	9.87%	10.94%	8.58%
S&P/ASX 200 Accumulation Index (NZD)	1.06%	21.61%	8.11%	10.99%	7.44%
MSCI World Index (local currency)*	2.67%	30.12%	14.66%	14.70%	11.56%
MSCI World Index (NZD)*	1.63%	24.61%	12.72%	15.53%	13.52%
S&P/NZX 90-Day Bank Bill Rate	0.06%	0.32%	1.07%	1.46%	1.95%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	-0.20%	0.75%	4.84%	3.08%	3.54%
S&P/NZX NZ Government Bond Index	-1.25%	-5.30%	2.69%	2.63%	4.12%

*With net dividends reinvested

Milford KiwiSaver plan is the proud winner of multiple awards:

Top Security Holdings (as a percentage of the Fund's Net Asset Value)

KiwiSaver Conservative Fund	KiwiSaver Moderate Fund	KiwiSaver Balanced Fund
Kiwibank 1.3% 2022 2.25%	Kiwibank 1.3% 2022 1.22%	Contact Energy 1.86%
NZLGFA 1.5% 2026 1.83%	Contact Energy 1.19%	Fisher & Paykel 1.68%
NZ Govt. 0.5% 2026 0.98%	NZLGFA 1.5% 2026 0.97%	Alphabet 1.33%
NAB Float 2026 0.92%	Fisher & Paykel 0.88%	Microsoft 1.24%
Housing NZ 3.36% 2025 0.87%	Alphabet 0.78%	Virgin Money 1.10%
NZLGFA 1.5% 2029 0.86%	Microsoft 0.73%	Mainfreight 1.04%
Scentre Group 4.75% 2080 0.83%	Telstra 0.69%	Spark 1.02%
NZLGFA 3.5% 2033 0.79%	Spark 0.69%	Telstra 1.00%
Wesfarmers 1.941% 2028 0.75%	Meridian 0.65%	Summerset 1.00%
Transpower 1.735% 2025 0.72%	Charter Hall Retail 0.65%	Charter Hall Retail 0.98%

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 3.26%	Alphabet 2.73%	Westpac 32 Day CMD 2020 20.26%
Contact Energy 3.21%	Microsoft 2.70%	ASB Bank 0.62% 2021 12.80%
Virgin Money 3.17%	Thermo Fisher 1.90%	ANZ 0.71% 2021 9.06%
Alphabet 2.42%	Mastercard 1.89%	SBS CD 2021 7.99%
Summerset 2.34%	TSMC 1.79%	Port of Tauranga CD 2021 6.92%
Microsoft 2.19%	S&P Global 1.74%	Auckland Airport CD 2021 5.33%
Dr Horton 2.08%	HDFC Bank 1.65%	Spark CD 2021 5.33%
Thermo Fisher 2.01%	Charles Schwab 1.58%	Spark CD 2021 4.26%
Lowe's 1.91%	Ametek 1.57%	Mercury CD 2021 4.26%
Charter Hall Retail 1.85%	HCA Holdings 1.52%	Meridian CD 2021 2.13%

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 $16.8 million invested in the Milford KiwiSaver Plan as at the end of August 2021.

Michael Luke
Investment Analyst

Investment Highlight

EBOS listed on the NZX back in 1960 as a small player in the New Zealand healthcare industry. Today EBOS is the largest wholesaler and distributor of healthcare products across Australia and New Zealand. It has achieved this through a combination of organic growth and large acquisitions. EBOS is also a large distributor of animal care products and the owner of several premium pet food brands. Just over 80% of earnings comes from healthcare while 20% comes from animal care.

Over the past 20 years EBOS has delivered an impressive shareholder return of 19.8%p.a. EBOS has been a core holding across several Milford funds since 2012 and we increased our shareholding in 2020 following a sell-down by a major shareholder. Our view at the time was that the market was underappreciating the defensiveness of EBOS's earnings as well as their growth runway.

Strong competitive position

EBOS is the market leader in most of their markets. In Australia EBOS are the largest distributor of pharmaceutical and healthcare products to pharmacies and hospitals. We estimate they have a 40% share of the pharmacy market, and 60% share of the hospital market. EBOS have also made significant investments in building the largest and most efficient healthcare distribution network across both Australia and New Zealand. Scale and higher levels of automation provides EBOS with a cost advantage when compared to their competitors. This allows them to earn better margins and generate higher returns on capital, in addition to offering a more reliable service to customers.

In healthcare distribution there are also very high barriers to entry due to both regulation and scale requirements.

Defensive sectors with solid growth outlook

Healthcare expenditure continues to grow driven by a growing and ageing population, while animal care expenditure has been growing strongly due to both an increasing pet population and humanisation of pets (a growing trend where owners treat their pets like children). Spending on pets grew very well over the past year as working from home saw a rise in pet adoption and how much we spend on our pets. Both sectors provide resilient and stable growth throughout economic cycles. Within these markets EBOS has also continued to gain market share which we expect will continue.

Both EBOS's strong competitive position and the underlying trends in these sectors have seen EBOS deliver consistent financial performance. EBOS has grown underlying earnings per share at a 10.6% compound annual growth rate since 2014.

The defensive nature of EBOS's products and services also meant that during 2021 EBOS achieved another record year with 14.0% earnings growth despite the COVID-19 pandemic.

Disciplined capital allocation

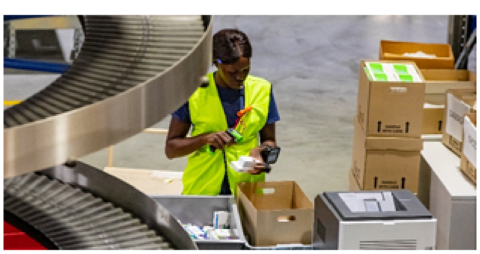
EBOS has a solid track record of creating shareholder value through accretive acquisition. This has included several transformative acquisitions since listing, such as the purchase of Symbion in 2013 for $1.1bn. At the time, Symbion was the largest healthcare distributor and wholesaler in Australia, and the acquisition forms the core of the Australian business EBOS has today. Subsequent acquisitions have been smaller bolt-ons in existing or similar markets.

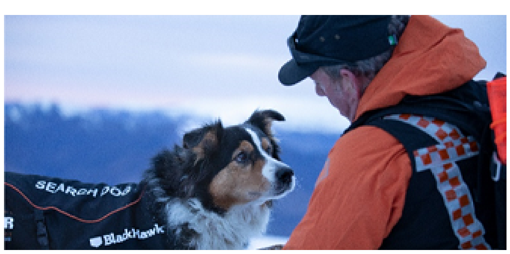
When making acquisitions or investments, EBOS adheres to a disciplined investment framework and requires investments to achieve a return on cash employed (ROCE) of at least 15%. EBOS has consistently achieved this, with a ROCE of 18.0% in 2021.

Outlook from here

Consistent growth over the years and resilience during COVID-19 has seen both future earnings expectations, and the multiple investors will pay for those earnings, rise. This has driven an increase in EBOS's share price from $24 at the start of 2020 to $35 today.

EBOS is in a strong competitive position and well placed to continue to grow earnings over the long term. They also have a solid balance sheet with plenty of capacity for further investments or acquisitions that will deliver value to shareholders.





Same same but different...

I hope you are all staying safe and managing well in your bubbles as we navigate another series of lockdowns. This latest COVID-19 outbreak did have a sense of inevitability about it. It felt as though it was a matter of when, not if.

As disruptive and frustrating as lockdowns are, we seem to have become much better at managing with them and just getting on with it. Many companies are also well practised now at 'pivoting' to online sales and having staff WFH (work from home). Technology has been a fantastic enabler on that front. However, there are many businesses and industries who can't adapt as easily and we really feel for them, so the sooner we can move down alert levels the better for us all.

Murray Harris
Head of KiwiSaver & Distribution

Financial markets do not like uncertainty. But New Zealand's latest lockdown has not seen the same panicked reaction on the local share market that we saw in March last year when the NZX50 fell by more than 25% (global share markets fell by up to 30% in response to the global COVID-19 fallout). In fact, in the past 2 weeks the NZ share market has reached a new six-month high and major share markets in the US and Australia have reached new all-time highs; another signal that markets and investors are now used to dealing with the pandemic and are taking it in their stride.

Last March across all KiwiSaver funds and providers $1.5 billion was switched to cash and conservative funds, as members worried about falling markets and this new thing called COVID-19. We have not seen panic switching this time around, helped by stable markets and maybe better educated members. We can't say the same for the panic at supermarkets and stocking up on toilet roll. I'm afraid I have no answers for that!

At Milford we continue to work hard (from home at present) on managing your hard earned KiwiSaver money. The team are well set up and able to continue making the best investment decisions on your behalf. And a reminder that if you are feeling uncertain about your fund choice or appetite for risk, we have the Milford **KiwiSaver Plan Digital Advice Tool** available via your client portal and now also on the Milford mobile App (Apple version. Android version coming soon).

Milford KiwiSaver Plan Funds Consistently Top Ranked

We are very pleased to see your Milford KiwiSaver Plan funds ranking as the top performing in their categories out of all KiwiSaver funds over the past five and ten years, as covered by the **Morningstar KiwiSaver Survey June Quarter 2021.** Remember we invest in the same funds alongside you, so we are as motivated as you are to see our funds remain top ranking.

Below is a summary of Milford's diversified KiwiSaver funds and their ranking to 30 June.

Milford KiwiSaver Plan Fund	1 Year	3 Years	5 Years	10 Years
Conservative Fund	2nd	3rd	**1st**	N/A
Moderate Fund	**1st**	N/A	N/A	N/A
Balanced Fund	5th	2nd	**1st**	**1st**
Active Growth Fund	4th	**1st**	**1st**	**1st**
Aggressive Fund	2nd	N/A	N/A	N/A

N/A = Fund has not been on offer for that time period.

Source: Morningstar KiwiSaver Survey June Quarter 2021

Stay safe everyone and thank you for choosing Milford to manage your KiwiSaver funds.

For more information about getting advice at Milford, see milfordasset.com/getting-advice