Milford KiwiSaver Plan
Monthly Review October 2021

Food for thought

As we head into the final quarter of the year, investors have an awful lot to contend with. Many of these issues came to the fore last month, with global share markets posting their biggest monthly fall in a year. Some defensive positions helped cushion the Funds from this volatility.

The potential collapse of China's second largest property developer, Evergrande, made global headlines. It's likely that any collapse will be carefully managed by the Chinese authorities; of bigger concern is the medium-term implications of China's pivot away from using property to stimulate growth.

Lower Chinese property investment has seen iron ore prices collapse. Anticipating this, we significantly reduced our exposure to Australian iron ore miners, helping insulate fund returns from the sharp falls in mining stocks this month. Instead, large holdings in defensive Australian companies such as Telstra and Charter Hall Group delivered positive returns in September.

The other big change facing investors is tightening central bank policy. Robust global growth and persistent inflation mean central banks may start to withdraw stimulus over the next few months. This has sent global bond yields higher, with bond prices commensurately lower. For diversified funds that hold bonds this can be a drag on returns, but Milford's Funds have protected against this scenario of rising interest rates by holding a significantly lower exposure to bonds over the past few quarters.

Surging inflation also affects company profits. At a broad level, will consumers accept higher prices or will demand suffer? At a micro level, complex global supply chains are suffering major Covid related disruptions. How companies and industries will deal with this will be revealed in October as US companies report third quarter profits. Weaker share markets in September suggest investor expectations are being pared back.

The outlook remains reasonable, even if there are some evident near-term risks. With the pandemic receding in the Western world, consumer spending should remain robust as social restrictions fade. Both government and central bank policy remains supportive, even if both are becoming less so. The devil is in the detail; the environment is conducive to creating winners and losers, we remain confident that our investment process can lead us to the former.

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KiwiSaver Conservative Fund

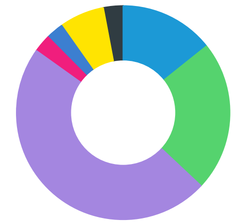
Portfolio Manager: Paul Morris

The market volatility we had been wary of duly arrived in September. Bonds were weaker as market interest rates rose while shares were generally weaker. This resulted in a 0.5% loss in the month but the Fund has returned 4.9% over 1-year.

Market interest rates rose reflecting expectations that the removal of emergency monetary policy settings is approaching. This weighed on many income-oriented shares but also shares of high growth companies (which have benefitted from lower rates). There is also wariness that company earnings could be negatively impacted by supply shortages and higher input costs. To an extent we were able to cushion returns from these headwinds through a lower than long-term neutral exposure to bonds and interest rates, but also by progressively reducing share exposure during the month as it became clear risks were growing.

Looking forward, the medium-term economic and market outlook remains constructive but the reopening from Delta is proving complicated which (i) increases near-term company earnings risks and (ii) means labour and logistics issues keep inflation risks elevated. Markets also need to navigate likely waning monetary policy support, just as fiscal support also falls away. To traverse this tricky backdrop, we will for now retain what has become a more conservative setting, specifically with less shares but more bonds and cash than in recent months. We will also limit interest rate exposure to cushion from rising rates. We will however look for weakness in markets to add selectively to bonds and shares of those companies we believe will deliver attractive medium-term returns.

Actual investment mix[1]



- Effective Cash# 14.28%
- New Zealand Fixed Interest 22.70%
- International Fixed Interest 47.88%
- New Zealand Equities 2.69%
- Australian Equities 2.66%
- International Equities 6.80%
- Listed Property 2.96%
- Other* 0.03%

The actual cash held by the Fund is 11.84%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

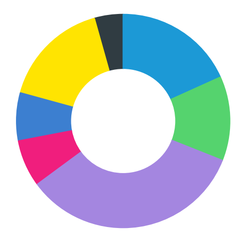
KiwiSaver Moderate Fund

Portfolio Manager: Mark Riggall

The Fund returned -0.6% in the month with a one year return of 9.8%. A key challenge in the current environment is how to manage a fund whose primary asset class is bonds (up to around 60% of the Moderate Fund's assets).

Global inflation is surging and proving somewhat sticky, coupled with central banks who are about to embark on a process (albeit long and drawn out) of withdrawing stimulus and even raising interest rates. These two factors are far from being appropriately priced by global government bonds at present, where yields on offer range from negative to barely 2% across developed countries.

Therefore, the Fund retains a significantly reduced exposure to interest rates. The bulk of the bonds that are held are corporate bonds which do offer higher yields. The share portfolio comprises largely of high dividend yielding shares that can generate a much better income than bonds, although this comes with a higher level of volatility. With a reasonable medium-term outlook, we will continue to look for opportunities to increase the level of shares in the Fund whilst guarding against further volatility.



- Effective Cash# 18.25%
- New Zealand Fixed Interest 12.77%
- International Fixed Interest 33.87%
- New Zealand Equities^ 7.11%
- Australian Equities 7.26%
- International Equities 16.38%
- Listed Property 4.36%
- Other* 0%

The actual cash held by the Fund is 15.02%. 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

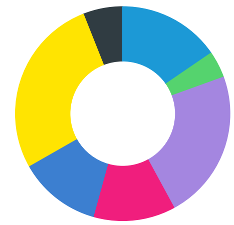
Portfolio Manager: Mark Riggall

The Fund returned -0.9% in the month with one year returns of 16.2%. The global economy is moving beyond the pandemic. Performance of economies and markets since the second quarter of 2020 has been nothing short of spectacular, driven by extraordinary policy support from central banks and governments.

However, as emergency policy settings start to be unwound, the economy will have to stand on its own two feet. There are lots of reasons to be optimistic on this front, unemployment levels are low and falling and global consumers have a significant store of savings. But inflation has spiked and remains high, and this has implications for bonds (whose prices should be lower in an inflationary environment) and companies (some of which will not be able to manage inflation pressures as well as others).

For the Fund, a medium-term reduction in bond holdings (specifically a lower interest rate exposure) is starting to pay off as bond prices fall. On the share side, the underlying portfolio managers have their work cut out to find companies that can navigate this tricky environment - to date they have broadly been successful in doing so. With a reasonable medium-term outlook, the Fund will look for opportunities to increase exposure to shares, whilst being careful to guard against the risk of further volatility in markets.

Actual investment mix[1]



- Effective Cash# 15.44%
- New Zealand Fixed Interest 4.04%
- International Fixed Interest 22.61%
- New Zealand Equities† 12.19%
- Australian Equities 12.45%
- International Equities 27.26%
- Listed Property 6.01%
- Other* 0%

The actual cash held by the Fund is 11.13%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

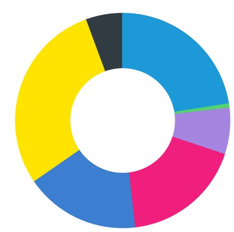
KiwiSaver Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund returned -0.8% over September and was negatively impacted by falls in global (-3.7%) and Australian (-1.8%) share market indices. Shares were under pressure from a number of factors including the potential collapse of Chinese property developer Evergrande, supply chain disruptions and reduced stimulus from central banks. The defensive positioning of the Fund and strong performance of NZ shares helped to cushion the Fund's performance against market falls.

Key positives during the month included retailers Kathmandu (+16.3%) and The Warehouse (+11.1%) which reported results during the month. Kathmandu reported profits up approximately 110% as its Rip Curl and Oboz brands performed well, and the market responded positively to the growth ambitions of the new CEO. The Warehouse reported profits up 165%, boosted by good sales growth and strong margin gains. We believe that management has done an excellent job at making operational improvements within the business and these are being reflected in higher margins. Key activity during the month was to reduce risk in response to rising economic and market risks and relatively optimistic investor sentiment. In particular, we reduced exposure to mining companies exposed to Chinese property and our investments in higher-valued growth companies.

The medium-term outlook for shares remains supported by the prospect of strong economic growth, strong 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. In the short-term we have become more cautious following strong share market returns and issues around supply chains and Chinese growth. Accordingly, the Fund has a lower than normal exposure to shares with a higher weight in cash. We continue to focus on company selection and believe there continue to be good opportunities to add value for investors.



- Effective Cash# 22.52%
- New Zealand Fixed Interest 0.64%
- International Fixed Interest 6.98%
- New Zealand Equities‡ 18.09%
- Australian Equities 17.11%
- International Equities 29.03%
- Listed Property 5.63%
- Other* 0%

The actual cash held by the Fund is 10.48%. 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 0.73% * 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 fell 3.1% in September. It was a weak month for global share markets, as there were rising concerns about a slowdown in the global economy.

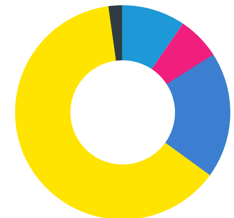
A key positive contributor for the month was US life sciences company Thermo Fisher Scientific (+3.0%), which performed well in a weak market. Thermo has been a key beneficiary of the pandemic, providing testing kits for Covid-19, as well as being heavily involved in vaccine development. The company is well positioned for the long term and recently raised its organic revenue growth outlook for the next three years, highlighting the strength in its end markets. One of the largest banks in the US, J.P. Morgan (+2.3%), also outperformed as investors rotated out of high growth names, into companies that benefit from higher interest rates. Another outperformer was semiconductor company Analog Devices (+2.8%), which is well placed to benefit from the increased electronic content in auto and industrial products, as well as benefitting from 5G wireless infrastructure buildouts.

In a month of rotation, the biggest detractors were technology heavyweights Alphabet (parent company of Google, -8.4%), Paypal (-9.9%) and Microsoft (-6.6%). Despite short-term weakness, we think the medium-term outlook remains positive for all these companies.

Australasian markets outperformed in September and one of the key contributors was IDP Education (+18.4%), which operates a network of international student placement centres. Other outperformers included investment bank and financial services company Macquarie Group (+9.2%) and Lifestyle Communities (+13.3%), which develops and manages communities for senior citizens.

Overall, despite short-term volatility, the backdrop remains favourable given supportive policy and the accelerated vaccine rollout. While the road ahead could be a little bumpy, we will take advantage of market weakness to add to companies that are aligned with our key investment themes.

Actual investment mix[1]



The actual cash held by the Fund is 10.32%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

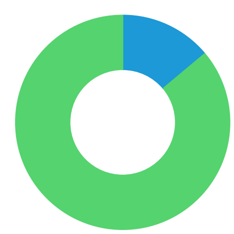
KiwiSaver Cash Fund

Portfolio Manager: Travis Murdoch & Katlyn Parker

In September 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.

Short-dated NZ Dollar interbank money market interest rates continued to move higher throughout the month. The market remains focused on the October RBNZ meeting which is very much live for a 0.25% increase in the OCR. In the first half of the month the market began to price in a considerable probability of a 50bps hike at the upcoming meeting but much of this was receded after a speech by the RBNZ Assistant Governor unambiguously outlining a more measured approach to gradually increasing the OCR from its current low base of 0.25%. Nonetheless, the expected direction is ultimately higher for the OCR which remains in line with our base case view.

The portfolio management of the Fund remains focused on maintaining its low-risk strategy which is built on a diversified portfolio of cash, short-dated debt securities and term deposits, so as to protect capital. As bank deposit rates continue to fall, we believe this should be an attractive, tax efficient (as a PIE vehicle), liquid (meaning investors have access to funds on request unlike term deposits) and low risk alternative to bank term deposits.



The actual cash held by the Fund is 13.91%. 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	-0.47%	4.90%	5.51%	5.67%	8.21%	2.0003	180.4 M
KiwiSaver Moderate Fund	-0.62%	9.79%	—	—	13.39%	1.2076	73.7 M
KiwiSaver Balanced Fund	-0.86%	16.16%	10.20%	10.08%	10.47%	3.0162	767.8 M
KiwiSaver Active Growth Fund^	-0.75%	23.46%	12.39%	12.20%	13.05%	5.1796	2,811.0 M
KiwiSaver Aggressive Fund	-3.12%	21.97%	—	—	18.14%	1.4314	681.2 M
KiwiSaver Cash Fund	0.04%	0.41%	—	—	0.39%	1.0060	22.1 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 $30 p.a. Administration and Registry fee.
Inception dates for the Funds: KiwiSaver Active Growth Fund: 1 October 2007, KiwiSaver Balanced Fund: 1 April 2010, KiwiSaver Conservative Fund: 1 October 2012, KiwiSaver Aggressive Fund: 1 August 2019, KiwiSaver Cash Fund: 27 March 2020, KiwiSaver Moderate Fund: 27 March 2020.
^This is based on the performance of the AonSaver AMT Milford Aggressive Fund until 31 March 2010 and the Milford KiwiSaver Active Growth Fund from 1 April 2010.

Key Market Indices

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)
S&P/NZX 50 Gross Index (with imputation credits)	0.63%	13.72%	13.24%	13.55%	15.33%
S&P/ASX 200 Accumulation Index (AUD)	-1.85%	30.56%	9.65%	10.42%	9.14%
S&P/ASX 200 Accumulation Index (NZD)	-1.02%	26.11%	8.15%	10.31%	8.07%
MSCI World Index (local currency)*	-3.69%	29.05%	12.96%	13.80%	11.12%
MSCI World Index (NZD)*	-2.21%	23.43%	11.65%	14.95%	12.45%
S&P/NZX 90-Day Bank Bill Rate	0.02%	0.32%	1.02%	1.42%	1.91%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	-0.94%	-0.56%	4.64%	2.89%	3.44%
S&P/NZX NZ Government Bond Index	-1.10%	-7.12%	2.36%	2.43%	3.94%

*With net dividends reinvested

Milford KiwiSaver plan is the proud winner of multiple awards:

consumer. PEOPLE'S CHOICE 4 YEARS RUNNING Milford KiwiSaver Plan

CANSTAR PROVIDER OF THE YEAR KIWISAVER 2020 - 2021

CANSTAR OUTSTANDING VALUE KIWISAVER SCHEME 2020 - 2021

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 2.18%	Contact Energy 1.23%	Contact Energy 1.94%
NZLGFA 1.5% 2026 1.77%	Kiwibank 1.3% 2022 1.23%	Fisher & Paykel 1.64%
ANZ 2.999% 2031 1.37%	NZLGFA 1.5% 2026 0.97%	Alphabet 1.24%
NZ Govt. 0.5% 2026 0.95%	Fisher & Paykel 0.86%	Microsoft 1.21%
Housing NZ 3.36% 2025 0.84%	ANZ 2.999% 2031 0.82%	Virgin Money 1.10%
NZLGFA 1.5% 2029 0.82%	Alphabet 0.74%	Telstra 1.04%
Scentre Group 4.75% 2080 0.81%	Microsoft 0.72%	Mainfreight 1.03%
NZLGFA 3.5% 2033 0.75%	Telstra 0.69%	Summerset 1.03%
Wesfarmers 1.941% 2028 0.72%	Charter Hall Retail 0.63%	Charter Hall Retail 0.95%
Transpower 1.735% 2025 0.70%	Spark 0.62%	HCA Holdings 0.95%

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
Contact Energy 3.43%	Microsoft 2.68%	Westpac 32 Day CMD 2020 17.77%
Virgin Money 3.34%	Alphabet 2.59%	ASB 0.62% 2021 10.66%
Fisher & Paykel 3.03%	Thermo Fisher 2.07%	ANZ 0.71% 2021 7.55%
Summerset 2.28%	Mastercard 2.05%	SBS CD 2021 6.66%
Alphabet 2.21%	Paypal 1.78%	Port of Tauranga CD 2021 5.77%
Microsoft 2.18%	HDFC Bank 1.70%	Auckland Airport CD 2021 4.44%
Lowe's 1.90%	Charles Schwab 1.68%	Spark CD 2021 4.43%
Charter Hall Retail 1.82%	TSMC 1.66%	Spark CD 2021 4.43%
HCA Holdings 1.77%	Analog Devices 1.65%	Mercury CD 2021 4.43%
Dr Horton 1.74%	Aon 1.54%	Port of Tauranga CD 2021 4.43%

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 September 2021.

Investment Highlight: Telstra

Telstra is Australia's largest telecommunication company with market leading positions in mobile, enterprise and residential broadband.

Early last decade it was regarded as a blue-chip income stock and its share price rose from $2.79 at the beginning of 2011 to $6.59 in 2015. At this point industry change weakened Telstra's business and profits deteriorated. Telstra fell out of favour with investors which saw its share price decline to $2.73 in October last year.

As its share price reached its lows, the seeds of a business turnaround had firmly taken root providing a great contrarian investment opportunity in an Australian stalwart.

Roland Houghton
Investment Analyst

The Issues Telstra Faced

Telstra owned Australia's most substantial copper phone lines business which gave it a dominant market position in the provision of broadband services. The issues however rose from the fact commercial entities such as Telstra had little incentive to build network capabilities in uneconomic areas therefore there was a materially different internet experience for Australians in regional locations. This led to the formation of The National Broadband Network initiative ('nbn') where the government essentially took control of Australia's residential broadband networks to ensure all Australians had access to high quality internet.

Previously Telstra would offer internet services to a residential customer largely over their own copper network however they now had to pay the Government to use the nbn network. This saw margins, in what was a large division, fall significantly for a number of years.

Concurrent to this, deteriorating economics in residential broadband saw competitors encroach on Telstra's more profitable enterprise segment, reducing profitability in this division as companies searched for other ways to monetise their network. Finally, mobile competition was becoming quite irrational as companies such as Optus focused on market share gains rather than profitability. This was exacerbated by TPG putting the pieces in place to launch a fourth competing mobile network. This all led to a serious strategy reset at Telstra and a material cutting of the dividend from a peak of 31c per share in FY17 to 16c per share today.

The Opportunity

All of these issues really reached their crescendo around two years ago and at this point the outlook for Telstra started to improve.

The nbn network roll out was nearing completion and therefore margins in their fixed business began to stabilise from what had been a bit of a free fall. The mobile market also began to improve as:

- Vodafone and TPG merged, removing a potential fourth entrant. This merger was a large drawn-out process given the ACCC tried to block it which proved to be a material distraction for both businesses.
- Huawei equipment was banned from being used on 5G networks. Vodafone and Optus had utilised Huawei hardware for their 3G and 4G networks and therefore needed to replace a lot of hardware if they were to offer 5G. This not only gave Telstra a head start with their 5G roll out but was also a very expensive exercise for its competitors.
- There was also a shift in competitive intensity from Optus as they changed their strategy from market share at any cost to profitable growth.

The final key thread to Telstra's turnaround (which we believe the market really misunderstood at the time) was the declining capital intensity of the business. Whilst the nbn was terrible for the profitability of their broadband division, it did offload what is the most capital heavy part of its network. Hence, cash flow was set to improve significantly, despite accounting earnings being under pressure. This proved to be correct as in FY21 Telstra generated profit of $1.9b vs free cash flow of $3.2b. We therefore had high confidence the dividend was sustainable and could potentially grow.

Alongside all of this, Telstra started to explore ways to monetise some hidden value within their business. For example, they sold a 49% stake in their tower assets at a significant premium to the value they were held at on their balance sheet. Moreover, there are still more divestment opportunities available to Telstra.

Conclusion

Despite all of the above, the market has been very slow to react to what are clear improving trends on a number of fronts for Telstra. It is often hard to break the negative sentiment towards a business that has built up because of years of earnings downgrades and disappointing results. This market pessimism has allowed us to build a significant position at very attractive levels with the market seemingly paying limited attention to the continuing improvement in the fundamentals and outlook for the business. This highlights very good investment returns can be achieved in even the most mature of businesses.

Your KiwiSaver Plan scoops Canstar Awards for second year

Murray Harris
Head of KiwiSaver & Distribution

Hot on the heels of winning the Consumer NZ People's Choice KiwiSaver Award for the fourth year in a row, we are very pleased to let you know the Milford KiwiSaver Plan has, for the second year running, won the Canstar KiwiSaver Provider of the Year and Outstanding Value KiwiSaver Scheme Awards.

Canstar research and analyse financial services and products across New Zealand and Australia. The KiwiSaver Provider of the Year Award is awarded to the provider with outstanding performance across the core KiwiSaver categories (Conservative, Balanced & Growth) over the past 5 years. Each of the Milford KiwiSaver Funds in those categories was awarded the top 5-Stars. The Award also compares scheme features, quality of service, member satisfaction and fees.

The Outstanding Value KiwiSaver Scheme Award compares cost and performance of funds over a 5-year period to determine which providers are giving the best overall value to their members. This year's research covered 22 KiwiSaver Schemes and 133 KiwiSaver funds.

We are very happy on behalf of you, our members, to be independently recognised as a market leading KiwiSaver provider once again. Rest assured we remain focused on continuing to challenge ourselves to provide you with the best KiwiSaver Plan to achieve your savings goals.

Reflecting on the past year, we have continued to provide: access to personalised KiwiSaver advice via our digital tools, KiwiSaver Advisers and independent Advisers; member education via our Livestream events; up to date info via the Milford App; #1 ranking investment performance over the past five and ten years for our KiwiSaver Active Growth, Balanced and Conservative Funds*; and removal of the annual member administration fee.

We are just as delighted as you hopefully are with these initiatives and results, as we are invested in the same funds alongside you. Remember to login to your Client Portal or the Milford Mobile App to see your latest KiwiSaver balance, fund performance and companies you are invested in.

And if you'd prefer to speak to a real person, we have our friendly and knowledgeable Investor Services Team available and happy to help on 0800 662 346 or at info@milfordasset.com.

*Source: Morningstar KiwiSaver Survey, 30 June 2021

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