

Milford Investment Funds

Monthly Review December 2021



Omicron the headline, interest rates remain the real story

November returns were impacted by the emergence of a new Covid variant, 'Omicron', which derailed global markets in the last few days of the month. Funds ended the month modestly lower. While the market response to this known risk was relatively short lived, this has nonetheless been a poignant reminder that new variants will be a feature of the investment landscape for some years to come.

The key to the outlook for financial markets is how central banks will respond to elevated inflation. Sharp rises in interest rates have the potential to upset share markets, bonds and a host of other assets. Fortunately, central banks seem to be in little hurry to meaningfully tighten policy, although there are signs the mood is shifting. The RBNZ raised rates by 0.25% in the month but some investors had expected even more. Whilst Australian and US central banks are being more patient, inflation is not going away, and this will keep the pressure on these central banks to hike.

November delivered a wide range of outcomes for our stocks, but healthcare companies were a standout. Fisher & Paykel Healthcare continues to be a significant Milford holding; last month they

announced good results and foresee ongoing strong demand for its products, sending the shares up 6.8%. In Australia, property companies Goodman and Charter Hall Group had a strong month, up 12.7% and 11.5% respectively. NZ shares were broadly weaker with the NZX 50 Index down 2.9% as investors anticipated higher interest rates.

Even with the emergence of Omicron, the global growth outlook likely remains strong as economies continue to rebound after last year's sharp recession. But moderately high valuations of shares and rising interest rates temper our expectations for returns. The next 12 months are likely to see higher levels of volatility in share markets even if broad returns are expected to be positive.

Given the complex outlook, Milford funds have pared back some share market exposure whilst adding back some bond exposure in NZ and Australia. This takes our exposures back towards a more neutral setting whilst we await clearer opportunities and greater certainty about the outlook.

Milford Asset Management

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Conservative Fund

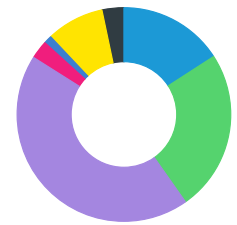
Portfolio Manager: Paul Morris

The recent pressure on Fund returns continued in November with the Fund down 0.1%. Volatility remains elevated across bonds and shares as markets whipsawed on (i) likely monetary policy tightening and (ii) the developing threat from Omicron. Performance across the Fund's broad asset classes was therefore very mixed.

Global corporate bonds were generally weaker, underperforming the safer haven of government bonds, on elevated bond issuance into waning investor demand (likely until interest rate volatility settles). Australasian corporate bond performance was however better, benefitting from larger falls in market interest rates, in part from a less hawkish approach from the Reserve Bank of New Zealand. Of the Fund's shares, NZ was the underperformer with weakness across income and cyclical sectors. Australian shares generally performed well, including a strong month for property. Banks were a laggard. In aggregate global shares also posted a positive month but below the surface there were pockets of weakness focused in the cyclical/reopening exposures which fell in response to the Omicron news.

Looking ahead, many central banks are keen to remove loose settings and government bond yields (especially outside of Australasia) arguably remain too low when considered against all but a materially adverse Omicron outcome. Nevertheless, until we get more clarity on the virus the Fund has incrementally increased exposure to government bond yields (safe haven demand sees yields fall) and has a more conservative setting; holding more cash and less exposure to shares than its long run neutral. Given the breadth of outcomes the share exposure remains well diversified.

Actual investment mix¹



Effective Cash [#]	Australian Equities
15.87%	1.24%
New Zealand Fixed Interest	International Equities
24.37%	8.72%
International Fixed Interest	Listed Property
43.72%	3.31%
New Zealand Equities	Other [*]
2.77%	0%

[#] The actual cash held by the Fund is 11.94%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

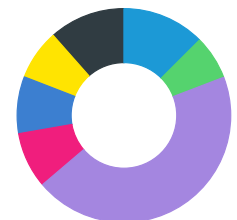
Diversified Income Fund

Portfolio Manager: Paul Morris

How to sum up November? In a word "volatile", as the Fund returned -0.6% (the Fund is up 5.2% over 1-year). Bonds and shares whipsawed in a wide range, reacting to (i) likely monetary policy tightening and (ii) the developing threat from Omicron. Performance across the Fund's broad asset classes was mixed and even more so at a bond and share level.

Global corporate bonds were generally weaker, underperforming safe haven government bonds, as heightened bond issuance met waning investor demand (likely until interest rate volatility settles). Australasian corporate bond performance was better, benefitting from larger falls in market interest rates. Of the Fund's shares, NZ was the underperformer with weakness across income and cyclical sectors. Australian shares generally performed well, including a strong month for property. The Fund's largest property holding Goodman Group was up 12.7% after a strong trading update. Banks were a laggard, including Virgin Money (restructuring costs) down 14.2% and Westpac (disappointing result) down 17.0%, albeit these are smaller holdings (0.5% and 0.4% respectively). Global shares were mixed with weakness in cyclical/reopening shares which fell due to the Omicron news. These holdings are to protect medium term returns from inflation and higher yield risks.

Looking ahead, many central banks are keen to remove loose settings and government bond yields (especially outside of Australasia) arguably remain too low when considered against all but a materially adverse Omicron outcome. Nevertheless, until we get more clarity on the virus the Fund has increased exposure to government bond yields (safe haven demand sees yields fall) and has a more conservative setting; holding more cash and less exposure to shares. Given the breadth of outcomes the share exposure remains well diversified, including retention of a mix of both income and cyclical shares.



Effective Cash [#]	Australian Equities
12.52%	8.62%
New Zealand Fixed Interest	International Equities
6.67%	7.60%
International Fixed Interest	Listed Property
44.59%	11.52%
New Zealand Equities	Other [*]
8.48%	0%

[#] The actual cash held by the Fund is 5.64%. 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.

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

Balanced Fund

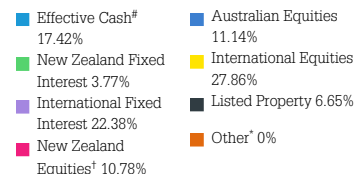
Portfolio Manager: Mark Riggall

The Fund returned -0.5% in the month, with a one-year return of 11.1%. November returns were impacted late in the month by the emergence of Omicron, a new Covid variant. Whilst this undoubtedly knocked sentiment, in reality financial markets were becoming a little more wary. This wariness is predominantly around the inflationary backdrop and whether this will cause the US central bank to raise interest rates more quickly in response. This could be an issue for share markets that thus far have enjoyed a very low interest rate environment.

NZ shares underperformed in the month, as they have done all year in anticipation of rate hikes. Whilst the RBNZ did raise interest rates a quarter point last month, investors are already expecting a string of rate hikes next year so arguably NZ shares already reflect this expectation. Rate hikes are not really expected in the US and Australia, and this is where the Fund has been reducing share market exposures recently.

At month end, the Fund's exposure to shares is at the lowest level seen all year. Whilst the outlook for returns is still positive, there is probably going to be more volatility over the next 12 months than we have seen this year. With a more complicated outlook, taking the Fund's exposures down a little allows greater flexibility to invest when conviction levels rise.

Actual investment mix¹



[#] The actual cash held by the Fund is 10.72%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

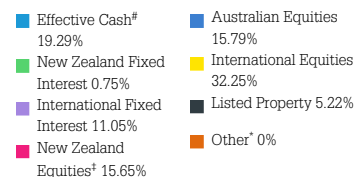
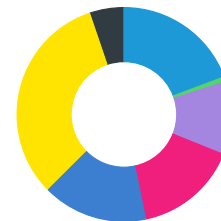
Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund fell 1.2% in November in what was a volatile and patchy market. Global share markets performed well initially following generally good earnings results and investor enthusiasm, however, fell late in the month to end down 1.5% due to concerns over Omicron. The New Zealand market was particularly weak falling 2.9% due to concerns that interest rate rises will slow the economy and reduce the attractiveness of NZ shares.

Key company positives during the month were Fisher & Paykel Healthcare (FPH, +6.8%), US homebuilder DR Horton (+9.4%) and US Home Improvement retailer Lowes (+4.6%). FPH benefitted from a good first half earnings result as its products remain in demand from hospitals to treat COVID patients. Strong hardware sales also provide the potential for ongoing sales of their consumables. DR Horton rose following impressive results with earnings rising 65% from the previous year due to strong demand for housing and rising margins. Lowes also reported better than expected sales and earnings results as consumer demand remained robust. During the month the Fund added to select fixed income holdings which, following rate rises, offered more attractive investment returns.

The medium-term outlook for shares remains supported by the prospect of solid economic growth, strong company earnings, 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. The discovery of the new Covid virus strain Omicron also put the market's focus back on risks. Whilst parts of the market have relatively full valuations, we continue to find companies which are reasonably valued. Given rising risks, the Fund reduced the allocation toward shares during the month to approximately 70%. The strategy of the Fund is to remain active and construct a portfolio of investments which provide attractive medium-term risk adjusted returns.



[#] The actual cash held by the Fund is 9.22%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Australian Absolute Growth Fund

Portfolio Manager: William Curtayne & Wayne Gentle

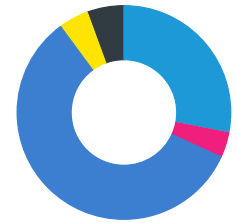
November was shaping up as a reasonable month until fears of the Omicron variant saw a late month retreat. The Fund ended the month down 0.3% while the ASX 200 Index fell 0.5%.

Our best performer of the month was Goodman Group (+12.7%) which rallied to new highs as its profit outlook continued to improve on structural demand for industrial property. Stalwart position Collins Foods (+10.2%) delivered yet another strong result. KFC stores in Australia performed well but the upside surprise was a strong result from their European stores on the back of stronger margins. We also had good contributions from some mining stocks with gold miner Evolution up 11.0%, copper miner Sandfire up 8.1% and nickel and lithium miner IGO rallying 9.3%.

Our worst performer was Virgin Money (-14.2%) which delivered a poor cost outlook at their result. While disappointing, management are taking the right approach and investing in digital capabilities to position the bank for the future. We increased our position slightly into the weakness.

As we reach the end of the year some long approaching risks have arrived (inflation and rate hikes) while a new risk has appeared (Omicron). The Fund has been reducing risk for several months now and has improved the quality of its holdings which should help it through any volatility that occurs. Stock picking opportunities will be thrown up with this uncertainty which we are well placed to capitalise on given our higher cash levels.

Actual investment mix¹



Effective Cash [#]	28.06%	International Equities	4.52%
New Zealand Equities	3.78%	Listed Property	5.59%
Australian Equities	58.05%	Other [*]	0%

[#]The actual cash held by the Fund is 22.53%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Aggressive Fund

Portfolio Manager: Stephen Johnston

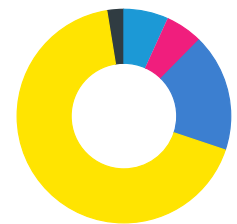
The Fund fell 0.6% in November. The emergence of a new Covid variant led to volatility during the month, with the Fund giving up its gains on the last day of the month.

The top contributor was US warehouse club, Costco (+9.7%), that tends to perform well in uncertain markets, given its defensive business model. Costco's membership structure with its high renewal rates provides earnings stability and the good news for NZ shoppers is they will be opening a store in Auckland in 2022. In a strong month for semiconductor companies, Analog Devices (+3.9%) outperformed, after releasing better than expected fourth quarter results and guidance, on strong chip demand. The company is well positioned to benefit from structural trends such as factory automation and the continued adoption of electric vehicles that use semiconductors for infotainment, safety measures and power management for batteries. Other strong performers included semiconductor equipment company Lam Research (+20.6%) and accounting software company, Intuit (+4.2%).

In terms of detractors, US medical devices company Boston Scientific (-11.7%) fell on concerns that elective medical procedures would be delayed with the new Covid variant. Despite the weakness, we continue to like their breadth of products boosted by new product launches and the focus of management on faster growing end markets. US payments company PayPal (-20.5%), also underperformed for a second consecutive month. This position is currently under review.

In the Australasian markets, strong performers included property company Goodman (+12.7%), Fisher & Paykel Healthcare (+6.8%) and fast-food restaurant company Collins Foods (+10.2%). The biggest detractors were Australian banks Westpac (-17.0%) and Virgin Money (-14.2%).

Looking ahead, we expect share markets to be bumpy, until we have more clarity on the new virus variant. We continue to monitor developments closely and will take a more defensive stance if the new variant is more lethal and resistant to vaccines.



Effective Cash [#]	6.77%	International Equities	67.29%
International Fixed Interest	0.04%	Listed Property	2.57%
New Zealand Equities	5.57%	Other [*]	0%
Australian Equities	17.76%		

[#]The actual cash held by the Fund is 7.61%. 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.

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

Trans-Tasman Bond Fund

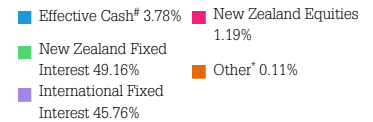
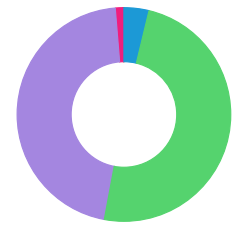
Portfolio Manager: Travis Murdoch

Fixed income markets in Australasia had a more constructive month in November. Government bond yields on both sides of the Tasman fell (bond prices higher). The Reserve Bank of New Zealand (RBNZ) raised the Official Cash Rate (OCR) by 25 basis points, which provided some relief to NZ government bond markets which had been pricing in a material probability of a 50 basis point hike. Further, the communications that accompanied the decision indicated that the RBNZ will continue to take a measured approach to further rate hikes which are likely to be gradual and dependent on incoming economic data. Corporate bonds in Australasia also had a better month, benefitting from lower interest rate volatility and notably outperforming offshore markets.

The Fund returned 0.6% in the month, slightly underperforming its benchmark due mainly to underperformance in the Fund's corporate hybrid and offshore corporate bond holdings, where the Fund has a small allocation in Australasian issuers. The Fund remained active in primary markets where after a weak month in October new deals came at attractive prices. The Fund was particularly active in New Zealand issuers, buying bonds in Auckland Airport, Contact Energy, Vector, Ports of Tauranga and Mercury Energy (in Australian Dollars).

Looking forward, the outlook for fixed income is once again clouded by Covid-19 uncertainty after the emergence of the Omicron variant. Nonetheless, we remain constructive on Australasian fixed income where we think bond markets have already been through a period of transition out of the low interest rate environment. The Fund maintains above neutral exposure in New Zealand where we continue to think expectations for future OCR hikes are most fully priced into bond yields, partially offset by below neutral interest rate exposure in offshore markets where the risk of moves higher in interest rates appear less reflected in prices.

Actual investment mix¹



[#]The actual cash held by the Fund is 3.15%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

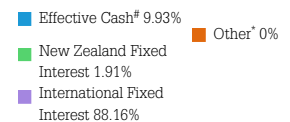
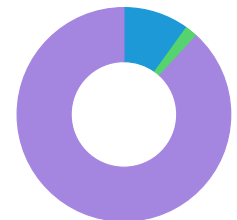
Global Corporate Bond Fund

Portfolio Manager: Travis Murdoch

Volatility remained high in fixed income as bond markets grappled with ongoing inflation pressures and increasing expectations of monetary policy tightening. The emergence of the new Omicron Covid-19 variant caused a surge in government bond buying which ultimately pushed bond yields lower in the month (prices higher). Corporate bonds generally had a weak month, underperforming government bonds, as investor appetite weakened in the face of ongoing interest rate volatility, elevated new issuance supply, and the Covid-19 uncertainty. Australasian corporate bonds bucked the trend with a more constructive month, benefitting from lower interest rate volatility in local markets following a turbulent month in October.

The Fund returned -0.6% in the month, which was 0.4% lower than its benchmark due in part to the Fund's overweight in European corporate bonds and subordinated financials which underperformed. The Fund was cautious in adding new exposure in primary markets, selectively adding bonds in issuers including NXP (European semiconductors), Deutsche Bank (European financials), and sustainability-linked bonds in Kerry Group (European consumer staples).

Looking forward, volatility is likely to remain elevated as persistently high inflation maintains upward pressure on interest rates and Covid-19 causes ongoing disruption. The Fund maintains a below neutral allocation to the weakest parts of the high yield market and below neutral interest rate positioning to cushion against the potential impact a move higher in interest rates may have on bond returns.



[#]The actual cash held by the Fund is 7.76%. 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.

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

Cash Fund

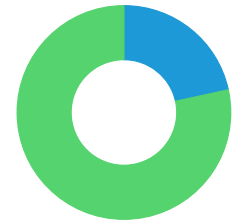
Portfolio Manager: Travis Murdoch & Katlyn Parker

In November the Fund generated a return of 0.06%, 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 climb higher at the beginning of the month. This was driven by heightened market expectations of a higher increase in the OCR than the 0.25% rise the RBNZ ultimately delivered at its November meeting. Our base case remains for higher interest rates from here, however, the RBNZ have been very clear in recent communications that further increases in the OCR will be gradual and data dependent.

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.

Actual investment mix¹



Effective Cash [#]	21.59%	Other [*]	0%
New Zealand Fixed Interest	78.41%		

[#]The actual cash held by the Fund is 21.59%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Global Equity Fund

Portfolio Manager: Felix Fok

The Fund gained 0.9% in November. Over 3 years, the Fund is up 70.7% (net of fees) compared to the market index which is up 58.6%.

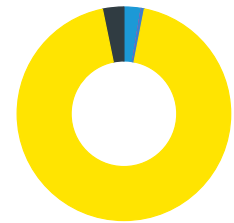
A key contributor was US discount retailer Costco (+9.7%). This members-only wholesale retailer offers exposure to US consumer recovery and defence in an uncertain pandemic environment. Costco prides itself in providing tremendous value to its shoppers and will be coming to Auckland in 2022.

Semiconductor equipment maker Lam Research (+20.6%) had a strong month. The tools made by Lam help advance the frontier of chipmaking and are therefore highly sought after. Yet, this company trades on a lower valuation than the US market, offering value.

Elsewhere, Ferrari (+13.0%) raced ahead with the launch of its latest limited edition (retro-inspired) car, the Ferrari Daytona SP3. Once again this illustrates that Ferrari doesn't just sell cars; it sells collectable art pieces that roar and highly exclusive membership.

Detractors included electronic payments companies, PayPal (-20.5%) and Mercadolibre (-19.8%), over concerns from slowing online shopping performance as economies reopen. As short-term investors checkout of Covid beneficiaries, we remain optimistic on the digitalisation of consumption.

Investors are repositioning for a changing outlook, leading to volatility. The portfolio remains focused on 'Future Leaders', which are best-in-class operators in attractive industries.



Effective Cash [#]	2.59%	Listed Property	3.23%
Australian Equities	0.48%	Other [*]	0%
International Equities	93.70%		

[#]The actual cash held by the Fund is 3.47%. 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.

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

Trans-Tasman Equity Fund

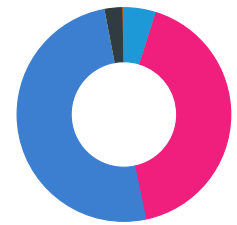
Portfolio Manager: Sam Trethewey

The Fund fell 1.8% in November. Our ASX holdings led performance over the month as interest rate driven weakness in the NZ market and the Omicron variant impacted returns. The ASX 200 index fell 0.5% and the NZX 50 declined 2.9%.

The positive for the month was a clear sign that the underlying earnings of our Fund's holdings remain very strong. The standout was Fisher & Paykel Healthcare (+6.8%) which reported a strong result well ahead of market expectations with earnings up 2% against a prior period which included extraordinary demand from the initial surges of Covid-19. Other highlights included Mainfreight (+1.4%), James Hardie (+8.9%) and Collins Foods (+10.2%) who all delivered results ahead of market expectations and have large market opportunities ahead of them. Key changes included reducing Fletcher Building early in the month to mitigate housing market concerns and adding to Sydney Airport following significant weakness from concern around the Omicron variant.

Looking ahead, interest rate movements are likely to continue to create volatility. The NZ market is now anticipating a series of interest rate rises from the RBNZ, it is now up to our central bank to deliver. In contrast, the RBA is still clearly holding interest rates at very low levels. We are continuing to find plenty of opportunities at the individual stock level and have cash to take advantage of any volatility. Over the medium term, despite what share prices might suggest this month, we expect earnings growth to be the key driver of the Fund's return. We continue to position the Fund in companies that can sustain earnings growth at above average rates (like Mainfreight, Xero and Fisher & Paykel Healthcare) and avoid those where we see stretched balance sheets, earnings or valuation risk. Irrespective of short-term market performance, long-term returns will be influenced by our stock selection.

Actual investment mix¹



The actual cash held by the Fund is 5.01%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins

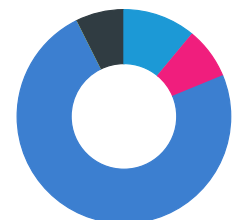
The Fund returned -0.2% in November, broadly in line with the S&P/ASX Small Ordinaries which ended down 0.3%. We were pleased with the result given the volatile end to the month.

Performance was led by EML Payments (+22.0%) which rallied following a more optimistic update from the Irish regulator. The update essentially removed the near-term regulatory overhang which has been in place for a number of months. KFC restaurant owner Collins Foods (+10.2%) rallied following the release of its first half earnings. Investment platform Praemium (+18.4%) received an opportunistic takeover offer by fellow platform Netwealth.

Exposures which detracted from performance was UK bank Virgin Money (-14.2%) and DGL (-18.3%). Virgin Money delivered a poor cost outlook at their result and DGL let off some steam after an incredible run since IPO.

As we approach the end of the year, global risks continue to escalate. The two most notable additions have been the arrival of the Omicron Covid variant and the Federal Reserve's acknowledgement that inflation is no longer transitory. We've entered December positioned conservatively, believing better opportunities to deploy capital on the long side will present themselves in the coming months ahead.

Please note this Fund is closed to new investment.



The actual cash held by the Fund is 11.06%. 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.

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

Fund Performance

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	Since Fund inception (p.a.)	Unit price \$	Fund size \$
Multi-Asset Funds							
Conservative Fund*	-0.13%	1.04%	5.28%	5.51%	5.66%	1.2180	599.0 M
Diversified Income Fund*	-0.61%	5.21%	7.40%	7.59%	10.26%	1.8764	2,839.3 M
Balanced Fund	-0.49%	11.07%	11.60%	10.21%	10.08%	2.9453	1,747.9 M
Active Growth Fund	-1.15%	16.32%	14.26%	12.50%	12.73%	5.0793	2,315.4 M
Australian Absolute Growth Fund	-0.33%	17.90%	13.42%	—	10.62%	1.4537	593.7 M
Aggressive Fund	-0.56%	—	—	—	—	1.0499	822.6 M
Cash and Fixed Income Funds							
Trans-Tasman Bond Fund**	0.64%	-2.88%	3.05%	3.58%	4.51%	1.1628	902.9 M
Global Corporate Bond Fund**	-0.59%	-0.37%	4.52%	—	4.11%	1.0876	725.1 M
Cash Fund	0.06%	0.44%	—	—	0.94%	1.0262	127.5 M
Equity Funds							
Global Equity Fund†	0.93%	22.85%	19.50%	15.37%	11.29%	2.4916	1,460.8 M
Trans-Tasman Equity Fund†	-1.80%	11.83%	18.19%	16.17%	12.08%	4.0168	988.1 M
Dynamic Fund#	-0.24%	23.89%	20.46%	16.20%	14.87%	3.0657	946.6 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 figures are after total Fund charges have been deducted and at 0% PIR.

Please note past performance is not a guarantee of future returns.

Inception dates for the Funds: Active Growth Fund: 1 October 2007, Trans-Tasman Equity Fund: 1 October 2007, Balanced Fund: 1 April 2010, Diversified Income Fund: 1 April 2010, Global Equity Fund: 12 April 2013, Dynamic Fund: 1 October 2013, Trans-Tasman Bond Fund: 2 December 2013, Conservative Fund: 1 September 2015, Global Corporate Bond Fund: 1 February 2017, Australian Absolute Growth Fund: 1 March 2018, Cash Fund: 1 March 2019, Aggressive Fund: 21 June 2021.

*Performance figures include the reinvestment of the Funds' distribution.

†Returns prior to 1 March 2018 are from when the Fund was previously offered to wholesale investors only and have been adjusted for current Fund charges.

‡Returns prior to 1 October 2018 are from when the Fund was structured to achieve an absolute return.

Closed to new investment.

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)	-2.89%	0.23%	13.78%	14.04%	14.07%
S&P/ASX 200 Accumulation Index (AUD)	-0.54%	15.48%	12.56%	10.11%	8.89%
S&P/ASX 200 Accumulation Index (NZD)	-0.97%	15.15%	11.91%	10.17%	8.27%
MSCI World Index (local currency)*	-1.47%	23.58%	16.71%	14.24%	11.11%
MSCI World Index (NZD)*	3.13%	26.10%	17.36%	15.62%	12.93%
S&P/NZX 90-Day Bank Bill Rate	0.06%	0.36%	0.95%	1.36%	1.84%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	0.71%	-0.69%	4.69%	3.53%	3.26%
S&P/NZX NZ Government Bond Index	0.98%	-7.50%	1.40%	2.50%	3.32%

*With net dividends reinvested

Upcoming Distributions

Fund	Target	Payment Date
Conservative Fund	0.5 cents (Quarterly)	20/01/2022
Diversified Income Fund	1.1 cents (Quarterly)	17/02/2022
Trans-Tasman Bond Fund	0.45 cents (Quarterly)	16/12/2021
Global Corporate Bond Fund	0.45 cents (Quarterly)	16/12/2021
Trans-Tasman Equity Fund	1.5 cents (Biannually)	17/03/2022

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

Multi-Asset Funds

Conservative Fund	Diversified Income Fund	Balanced Fund
Kiwibank 1.3% 2022 2.26%	Contact Energy 2.00%	Contact Energy 1.76%
ANZ 1.45% 2022 2.01%	Scentre Group 5.125% 2080 1.67%	Fisher & Paykel 1.43%
NZLGFA 1.5% 2026 1.58%	Sydney Airport 1.50%	Alphabet 1.32%
NZ Govt. 0.5% 2026 1.54%	Goodman 1.44%	Microsoft 1.24%
ANZ 2.999% 2031 1.25%	Telstra 1.29%	Sydney Airport 1.06%
Vector 3.69% 2027 0.83%	Charter Hall Retail 1.29%	Telstra 0.96%
Housing NZ 3.36% 2025 0.79%	Transurban 1.28%	Santos 0.92%
NZLGFA 1.5% 2029 0.75%	Spark 1.24%	Mainfreight 0.92%
NZLGFA 3.5% 2033 0.68%	NAB 1.08%	HCA Holdings 0.91%
NZLGFA 2.25% 2028 0.68%	Charter Hall Long WALE 0.96%	Virgin Money 0.88%

Active Growth Fund	Australian Absolute Growth Fund	Aggressive Fund
Contact Energy 3.04%	NAB 6.60%	Microsoft 3.01%
Virgin Money 2.70%	CSL 5.02%	Alphabet 2.74%
Alphabet 2.61%	Telstra 4.60%	Danaher 2.15%
Fisher & Paykel 2.24%	Sydney Airport 3.75%	Thermo Fisher 1.98%
Santos 2.18%	Woolworths 3.53%	Analog Devices 1.93%
Dr Horton 2.13%	Santos 3.14%	Intercontinental Exchange 1.78%
Microsoft 1.96%	CBA 2.86%	HCA Holdings 1.74%
Lowe's 1.85%	Virgin Money 2.74%	SVB Financial 1.73%
HCA Holdings 1.77%	BHP Group 2.67%	Mastercard 1.69%
Sydney Airport 1.72%	Evolution Mining 2.49%	Aon 1.63%

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

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

Cash and Fixed Income Funds

Trans-Tasman Bond Fund	Global Corporate Bond Fund	Cash Fund
NZLGFA 1.5% 2026 4.22%	Credit Agricole 6.875% Perpetual 1.79%	Westpac 32 Day CMD 2020 15.72%
NZ Govt. 0.5% 2026 4.12%	Becton Dickinson Euro 0.334% 2028 1.73%	ANZ 1.1% 2022 6.67%
Vector 3.69% 2027 2.23%	Danaher Corp 0.45% 2028 1.66%	ANZ 1.1% 2022 5.50%
Housing NZ 3.36% 2025 2.12%	NXP BV 4.3% 2029 1.63%	SBS CD 2022 5.48%
NZLGFA 1.5% 2029 2.01%	McDonald's 3% 2024 1.56%	Auckland Airport CD 2022 4.70%
NZLGFA 3.5% 2033 1.83%	Thermo Fisher 0.8% 2030 1.50%	Spark CD 2021 3.92%
NZLGFA 2.25% 2028 1.81%	John Deere 0.70% 2026 1.49%	Mercury CD 2021 3.92%
Transpower 1.735% 2025 1.74%	Crown Euro. 3.375% 2025 1.46%	Port of Tauranga CD 2021 3.92%
ANZ Float 2024 1.72%	John Deere 1.75% 2024 1.45%	Spark CD 2022 3.92%
Government of Australia 0.5% 2026 1.65%	Seagate 4.091% 2029 1.43%	Genesis CD 2022 3.91%

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).

Equity Funds

Global Equity Fund	Trans-Tasman Equity Fund	Dynamic Fund
Microsoft 4.45%	Fisher & Paykel 7.41%	Collins Foods 4.19%
Alphabet 4.37%	Mainfreight 5.29%	Credit Corp 3.55%
Intercontinental Exchange 2.77%	Xero 5.08%	IPH 3.18%
Mastercard 2.54%	CSL 4.02%	Evolution Mining 3.14%
LVMH 2.45%	Infratil 3.63%	Carsales.Com 3.08%
Thermo Fisher 2.44%	NAB 3.07%	Seven Group 3.03%
Apple 2.44%	Contact Energy 3.01%	Contact Energy 2.98%
Danaher 2.44%	Summerset 2.88%	Northern Star 2.69%
Costco 2.40%	BHP 2.49%	Lifestyle Communities 2.69%
Accenture 2.29%	Auckland Airport 2.31%	Metcash 2.55%

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 and Milford staff have approximately \$31.5 million invested across our Investment Funds as at the end of November 2021.



Katlyn Parker
Investment Analyst

Investment Highlight: Australasian airports Moving in the flight direction?

With some of the most severe and swiftly implemented border controls globally, airports in New Zealand and Australia have had turbulent journeys to navigate over the past eighteen months. The outbreak of COVID-19 changed travel virtually overnight with passenger numbers significantly reduced and in turn earnings dropping to unparalleled levels.

COVID-19 impact

Alongside aeronautical revenue (e.g. fees from airlines to land their planes), airports have multiple other revenue streams but the majority of these are ultimately linked to passenger movements (such as duty free and car parking). However, many of the Australasian airports also have large property portfolios which became an important focus of our investment analysis. These property

portfolios continue to benefit the airports from the long-term nature of their lease agreements providing an anchor to otherwise rapidly declining revenues during times of limited travel.

Airports' cashflows and liquidity became a prime focus for both equity and bond investors alike. The ultimate question being – can these companies steer their way through an unknown length of time where they cannot freely do what they were ultimately built for – accommodate travel?

Reaction

With debt and equity investors continuously scrutinising their financials and credit rating agencies watching closer than ever to take any required action in a prompt manner, the airports proactively executed a number of initiatives to support their credit quality and protect their balance sheets. These actions included and are not limited to:

- Stopping dividend payments to shareholders
- Raising additional equity
- Placing capital expenditure and expansion plans on hold; and
- Cutting their operating costs as much as practically possible

Opportunity

On the fixed income side, several of the Australasian airports have come to the local bond markets to borrow additional funds to ensure they have adequate liquidity. Through robust fundamental credit analysis with a sharp focus on cashflow forecasting, tangible asset quality and liquidity preservation, we were able to identify opportunities in an exceptionally challenged sector.

One example of this is Brisbane Airport who came to the Australian bond market in the depths of the pandemic in June 2020 and borrowed \$750 million from investors. When focusing on this particular airport, its property portfolio, exposure to not just domestic but intra state flying in addition to its proactive approach in cutting costs and withholding shareholder distributions were key positive factors. This deal received tremendous support as its strategic importance as the gateway to Queensland provided investors comfort and belief in their futures.

Our airports will be critical to the recovery of both New Zealand and Australian economies in a post pandemic world. The recent takeover bid on Sydney Airport highlights the appetite and capital from private investors wanting to get their hands on this type of infrastructure asset and it underpins valuations in this sector.

Conclusion

The ongoing recovery will be uneven, the more domestically focused airports will see a full recovery earlier compared to those airports more exposed to international travellers. Pent up demand is ripe but there is still a long runway ahead to reach pre-Covid levels of travel.

At Milford, we believe our ongoing robust fundamental credit analysis will allow us to continue to identify further opportunities within a challenged sector and we will continue to monitor these investments on an ongoing basis.



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