

Milford KiwiSaver Plan

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.

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MILFORD
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KiwiSaver Conservative Fund

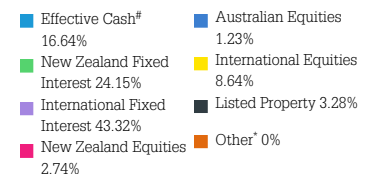
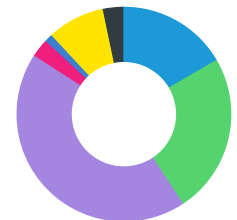
Portfolio Manager: Paul Morris

The recent pressure on Fund returns continued in November with the Fund down 0.4%. 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 in 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



[#]The actual cash held by the Fund is 12.74%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

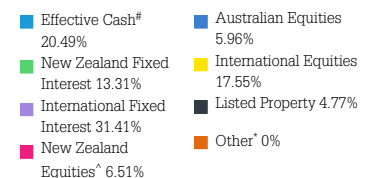
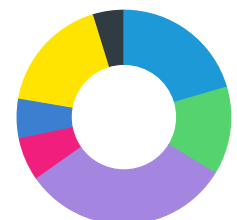
KiwiSaver Moderate Fund

Portfolio Manager: Mark Riggall

The Fund returned -0.3% in the month, with a one-year return of 5.5%. November returns were impacted late in the month by the emergence of Omicron, a new Covid variant. Whilst this undoubtedly knocked sentiment, financial markets were already 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.

Whilst the RBNZ did raise interest rates a quarter point last month, the bond markets in NZ already anticipate a string of rate hikes next year. This means that bonds in NZ look more attractive now and we have increased exposure accordingly.

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.



[#]The actual cash held by the Fund is 15.44%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

KiwiSaver Balanced Fund

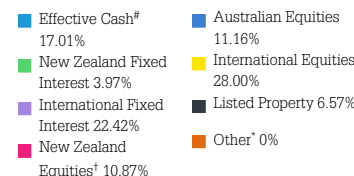
Portfolio Manager: Mark Riggall

The Fund returned -0.2% in the month, with a one-year return of 11.3%. 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 10.51%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

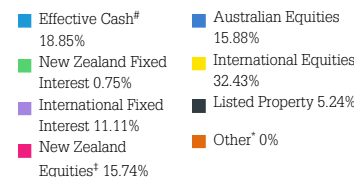
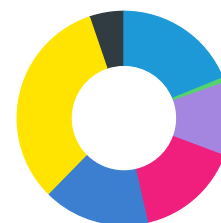
KiwiSaver Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund fell 0.9% 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 8.69%. 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 0.11% [‡]Includes unlisted equity holdings of 0.67% ^{*}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.

KiwiSaver Aggressive Fund

Portfolio Manager: Stephen Johnston

The Fund fell 0.4% 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.

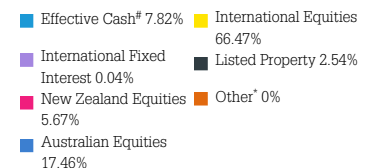
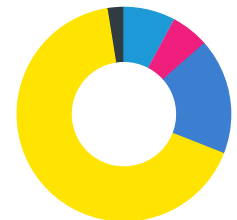
The top contributor was US warehouse club, Costco (+9.7%), that tends to perform well in uncertain markets, given its defensive business model. Costco's membership structure with its high renewal rates provides earnings stability and the good news for NZ shoppers is they will be opening a store in Auckland 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.

Actual investment mix¹



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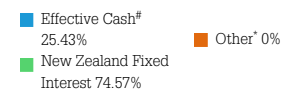
KiwiSaver Cash Fund

Portfolio Manager: Travis Murdoch

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.



[#]The actual cash held by the Fund is 25.43%. 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 \$
KiwiSaver Conservative Fund	-0.35%	0.87%	5.26%	5.45%	7.86%	1.9679	177.6 M
KiwiSaver Moderate Fund	-0.28%	5.52%	—	—	11.47%	1.1982	81.8 M
KiwiSaver Balanced Fund	-0.21%	11.31%	11.84%	10.43%	10.34%	3.0242	798.0 M
KiwiSaver Active Growth Fund [†]	-0.86%	17.19%	14.45%	12.72%	12.88%	5.1750	2,888.0 M
KiwiSaver Aggressive Fund	-0.36%	18.79%	—	—	17.86%	1.4635	744.9 M
KiwiSaver Cash Fund	0.06%	0.44%	—	—	0.42%	1.0070	30.0 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)	-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

Milford KiwiSaver plan is the proud winner of multiple awards:



PROVIDER OF THE
KIWISAVER 2020 - 2021



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 2.24%	Kiwibank 1.3% 2022 1.24%	Contact Energy 1.76%
ANZ 1.45% 2022 1.99%	Contact Energy 1.10%	Fisher & Paykel 1.44%
NZLGFA 1.5% 2026 1.56%	ANZ 1.45% 2022 0.95%	Alphabet 1.32%
NZ Govt. 0.5% 2026 1.53%	NZLGFA 1.5% 2026 0.83%	Microsoft 1.23%
ANZ 2.999% 2031 1.24%	NZ Govt. 0.5% 2026 0.81%	Sydney Airport 1.06%
Vector 3.69% 2027 0.83%	Alphabet 0.79%	Telstra 0.95%
Housing NZ 3.36% 2025 0.78%	Microsoft 0.75%	Mainfreight 0.93%
NZLGFA 1.5% 2029 0.74%	Fisher & Paykel 0.75%	Santos 0.93%
NZLGFA 3.5% 2033 0.68%	ANZ 2.999% 2031 0.74%	HCA Holdings 0.91%
NZLGFA 2.25% 2028 0.67%	Sydney Airport 0.70%	Virgin Money 0.88%

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 3.06%	Microsoft 2.97%	Westpac 32 Day CMD 2020 14.95%
Virgin Money 2.72%	Alphabet 2.71%	ANZ 1.1% 2022 6.34%
Alphabet 2.63%	Danaher 2.12%	ANZ 1.1% 2022 5.23%
Fisher & Paykel 2.25%	Thermo Fisher 1.95%	SBS CD 2022 5.21%
Santos 2.19%	Analog Devices 1.90%	Auckland Airport CD 2022 4.47%
Dr Horton 2.14%	Intercontinental Exchange 1.76%	Spark CD 2021 3.73%
Microsoft 1.98%	HCA Holdings 1.72%	Mercury CD 2021 3.73%
Lowe's 1.86%	SVB Financial 1.70%	Port of Tauranga CD 2021 3.73%
HCA Holdings 1.78%	Mastercard 1.67%	Spark CD 2022 3.72%
Sydney Airport 1.73%	Aon 1.61%	Genesis CD 2022 3.72%

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 \$17.3 million invested in the Milford KiwiSaver Plan as at the end of November 2021.

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As a KiwiSaver provider we take very seriously the role of being the best that we can be across a broad range of measures, whether it be client service, access to information, risk-adjusted investment returns or investing sustainably.

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Milford's common purpose is to grow the wealth of our clients and make a positive contribution to the community. We live by that and have been making philanthropic contributions to the community for many years.

We have taken this commitment to another level with the establishment of the Milford Foundation.


The Milford Foundation's mission is to strengthen New Zealand communities through the lenses of youth, education and the environment. Through a combination of investment expertise, our generous donor community, a commitment to efficiency, effectiveness and transparency, and strong partnerships, we can - and will - make a meaningful impact for New Zealand's future generations.



To introduce the Foundation, we've recently released the first issue of Impact magazine. This detailed read gives you an insight into why we believe the Foundation is an important commitment to supporting our communities and giving back.

Milford Foundation Chief Executive, Bryce Marsden summarises it well, "The Foundation's success will ultimately be your success as we work to bridge this widening gap and initiate positive change".

By investing with the Milford KiwiSaver Plan, you're trusting your hard-earned funds to be managed by a provider who is not only committed to the very best outcomes for you, but also the very best outcomes for the communities of New Zealand as well.



+ 5%

\$1,481,000

- 0800 What's Up - Over 3 Years
- Graeme Dingle Foundation - Over 3 Years
- Graeme Dingle Foundation - Career Pathways Pilot
- The Fono Trust - Food Bank
- The Village Community Services Trust - Food Bank
- Manukau Urban Maori Authority - Food Bank

