Milford KiwiSaver Plan
Monthly Review January 2022

A wider perspective

Fund returns in December were strong as local and global share markets shrugged off the threat of the latest 'Omicron' Covid wave.

Looking back on 2021, fund returns have been driven by two key factors. Firstly, global bond markets have had a tough year as inflation has soared, sending government bond prices lower. Our funds have taken measures to mitigate against these moves but a falling bond market is a significant headwind for lower risk funds that predominantly invest in these assets.

Secondly, share market returns have been dominated by the moves of a small number of stocks. This has been particularly stark in the US with strong performance of large technology companies - Google and Microsoft delivered returns of 65% and 53% respectively in 2021. These stocks, alongside healthcare services provider HCA (+58%) were notable performers for Milford funds last year. In Australia some banks had a good year - National Australia Bank returned 36% and Virgin Money UK returned 32%. Telstra (+50%) and some property companies also performed well for our funds.

December share market performance shows investors are willing to look past new Covid waves. This is a reflection of the strong economic momentum and very low levels of interest rates around the world, encouraging investors to chase share market returns.

New Zealand's share market posted a solid 2.5% gain in December, but the index ended 2021 down 0.4%, partly due to rising local interest rates. Australia's ASX 200 delivered 2.8% in December with 2021 returns of 17.2%. Notably, the RBA has been steadfastly refusing to signal rate hikes. NZ's experience this year may be a taste of what's to come for international investors in 2022, given the expectation that global central banks will start to lift interest rates from record low settings.

2022 is likely to see a lower rate of return on all assets, alongside a greater degree of volatility – both up and down. However, we expect to see continued opportunities to move portfolios around, finding more attractively valued companies that can benefit from the underlying economic strength.

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KiwiSaver Conservative Fund

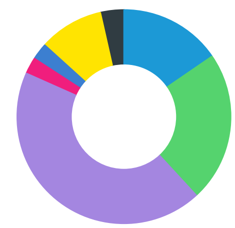
Portfolio Manager: Paul Morris

The Fund enjoyed a strong end to the year, gaining 1.2% in December, recovering much of the recent weakness. As December progressed, confidence improved that economies could navigate the Omicron Covid wave and the removal of extremely loose central bank monetary policy settings. This underpinned the annual "Santa Rally" in risky assets which helped the Fund's shares (to which exposure had been increased) post strong gains and led corporate bonds (the Fund's predominant bond exposure) to outperform a mixed month for government bonds. Most of the Fund's corporate bonds posted positive returns and they continue to recover from recent underperformance relative to government bonds.

High yield bonds and subordinated bonds of investment grade rated companies delivered a higher return than investment grade bonds, being more insulated from rising market interest rates. There were broad based gains across the Fund's shares. Income oriented, growth and cyclical shareholdings all broadly speaking posted gains, but it was another call out month for property shares and global infrastructure shares (especially roads and airports).

Looking forward, our base case remains for positive but moderate Fund returns in 2022. Market interest rates are likely to rise as central banks tighten policy to combat high inflation but should remain historically low. Nevertheless, this may be a headwind for bonds, so we continue to limit interest rate exposure. The Fund's share exposure may be close to its long run neutral, as the earnings outlook remains positive and interest rates remain historically low, but given likely rising interest rates and increased market volatility it will remain actively managed in terms of allocating across different countries and sectors.

Actual investment mix[1]



- Effective Cash# 15.43%
- New Zealand Fixed Interest 22.72%
- International Fixed Interest 43.51%
- New Zealand Equities 2.52%
- Australian Equities 2.53%
- International Equities 9.75%
- Listed Property 3.54%
- Other* 0%

The actual cash held by the Fund is 14.00%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

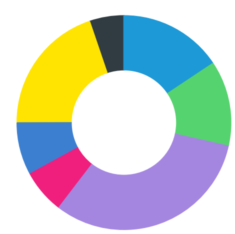
KiwiSaver Moderate Fund

Portfolio Manager: Mark Riggall

The Fund had a strong end to the year, up 2.2% in December, bringing the annual return to 6.5%. Performance in December was driven by a rebound in local and global share markets as they shrugged off concerns about the latest Omicron wave of Covid.

Australian property company Goodman Group was up 7.9% whilst CBRE (global real estate services company) was up 13.5%. Corporate bonds also outperformed global government bonds helping boost performance in the month.

Returns over the past year have been driven almost entirely by the share portion of the portfolio. Bond returns have been muted and are expected to remain so as global central banks follow the RBNZ's lead and raise interest rates. An environment of rising interest rates will likely mean share market returns will be lower and more volatile going forward. The Fund will navigate this environment by retaining a focus on higher returning corporate bonds and being nimble around share market exposure. The economic backdrop remains strong which will continue to provide opportunities to boost returns via good stock selection.



- Effective Cash# 15.66%
- New Zealand Fixed Interest 12.87%
- International Fixed Interest 31.86%
- New Zealand Equities^ 6.64%
- Australian Equities 7.93%
- International Equities 19.82%
- Listed Property 5.22%
- Other* 0%

The actual cash held by the Fund is 14.20%. 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 0.05% *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 2.7% in the month, with a one-year return of 12.2%. December returns were strong as local and global share markets shrugged off the latest Covid wave.

It was a good month for Australian property names such as Goodman Group (+7.9%). On the global side, infrastructure stocks and global cyclical companies, such as banks, recovered from their previous weakness. The Fund's exposure to shares had been increased at the start of the month in anticipation of a strong end to the year but this has now been reduced again back to a more neutral setting.

Returns over the past year have been driven almost entirely by the share portion of the portfolio. Bond returns have been muted and are expected to remain so as global central banks follow the RBNZ's lead and raise interest rates. An environment of rising interest rates will likely mean share market returns will be lower and more volatile going forward. The Fund will navigate this environment by retaining a lower exposure to bonds and being nimble around share market exposure. On the positive side, the economic backdrop remains strong which will continue to provide opportunities to boost returns via good stock selection.

Actual investment mix[1]

The actual cash held by the Fund is 11.62%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

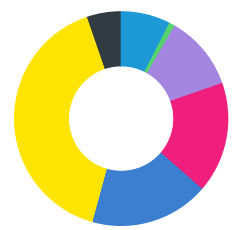
KiwiSaver Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund rose 3.3% in December and finished the year up by 18.5%. Global share markets rose as investors looked past Omicron and focused on strong growth prospects in the United States and continued low interest rates. The Fund performed well generating returns in excess of the markets it invests, due to strong company selection.

Key positive performing companies during the month included NZ healthcare logistics company EBOS (+13.0%), Australian bio-technology company Neuren (+109.4%), US hospital company HCA (+14.1%), US health insurer Anthem (+14.4%) and US home builder Pulte (+14.6%). EBOS rose following the acquisition of medical devices distribution company LifeHealthcare which complements EBOS' current pharmacy, healthcare and logistics businesses. Neuren rose following the positive trial of its treatment for Rett Syndrome, a rare disease. Whilst a small holding in the Fund, we were pleased to be able to support a company which will have major benefits for its patients. HCA, Anthem and Pulte were re-rated as investors focus shifted to companies with attractive valuations.

The outlook for shares in 2022 is supported by the prospect of strong 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 prospect of rising Omicron cases may also cause short-term economic weakness. Whilst parts of the market have relatively full valuations, we continue to find companies which we believe are attractively valued. 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 7.86%. 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 0.65% *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 3.6% in December and ended up 20.2% for 2021. Despite the emergence of Omicron, a highly contagious new Covid variant, and growing concerns that policy tightening to address inflation may be less transitory than expected, global share markets ended 2021 on an upbeat note.

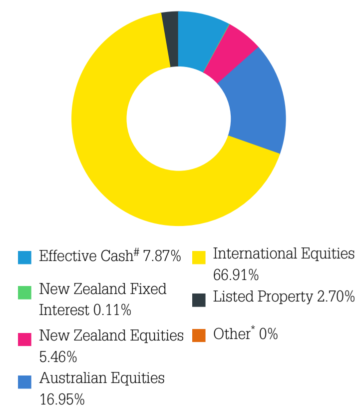
A key contributor in December was US hospital operator HCA (+14.1%) which ended up a remarkable 57.6% for the year. Operationally, HCA performed strongly during 2021 despite ongoing pandemic pressures: growing market share; enhancing service lines; and expanding care offerings. All of these factors contributed to healthy organic revenue growth. US payments network Mastercard, made a strong recovery in December (+14.1%) after a somewhat disappointing performance in 2021, largely due to the ongoing pandemic. Encouragingly, their high margin cross border payment volumes (reflecting credit card use abroad) continue to recover and we believe there is significant pent-up demand for leisure and business travel that will boost revenue growth in 2022. Another of our reopening plays, Wyndham Hotels and Resorts, performed strongly in December (+13.2%). Wyndham has a strong brand in the US and is benefitting from the recovery in domestic leisure travellers.

In terms of detractors, software companies were under pressure in December with Adobe (-15.3%) and Shopify (-9.5%) both contributing negatively for the month. Allbirds, the NZ founded, sustainable footwear and apparel brand, has had a volatile start since it listed on the Nasdaq in November and was weak in the month (-21.6%). Medium term, Allbird's focus on sustainability lends significant growth potential, as consumers are incorporating higher sustainability standards into the products they buy, including shoes.

In Australasian markets, strong performers included health care company EBOS (+13.0%) and copper company Sandfire Resources (+9.5%). The biggest detractor was fast food operator Collins Foods (-3.9%).

Looking ahead, we expect elevated volatility in share markets until we have more clarity on Omicron and the outlook for inflation. We are monitoring developments closely and our strategy going forward is to take advantage of the volatility to add our favoured names at cheaper prices.

Actual investment mix[1]



The actual cash held by the Fund is 8.29%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

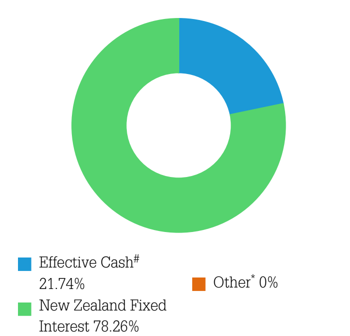
KiwiSaver Cash Fund

Portfolio Manager: Travis Murdoch & Katlyn Parker

In December the Fund generated a return of 0.07%, 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 during the month of December. This benefits the Fund by increasing the interest rates into which it can progressively reinvest maturing holdings. Our base case remains for higher interest rates starting with the next RBNZ meeting in February, however the RBNZ have been very clear in their 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 21.74%. 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	1.17%	1.27%	5.63%	5.55%	7.92%	1.9909	179.4 M
KiwiSaver Moderate Fund	2.17%	6.47%	–	–	12.25%	1.2241	89.1 M
KiwiSaver Balanced Fund	2.68%	12.19%	13.33%	10.62%	10.50%	3.1046	840.7 M
KiwiSaver Active Growth Fund^	3.30%	18.49%	16.40%	13.13%	13.06%	5.3445	3,029.5 M
KiwiSaver Aggressive Fund	3.55%	20.21%	–	–	18.88%	1.5152	798.6 M
KiwiSaver Cash Fund	0.07%	0.48%	–	–	0.44%	1.0077	31.1 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.
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)	2.55%	0.20%	14.77%	14.66%	14.05%
S&P/ASX 200 Accumulation Index (AUD)	2.75%	17.23%	13.62%	9.76%	8.99%
S&P/ASX 200 Accumulation Index (NZD)	4.43%	16.20%	14.05%	10.26%	9.21%
MSCI World Index (local currency)*	4.00%	24.17%	21.51%	14.51%	11.86%
MSCI World Index (NZD)*	3.37%	28.10%	20.86%	15.45%	13.66%
S&P/NZX 90-Day Bank Bill Rate	0.06%	0.39%	0.91%	1.34%	1.80%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	-0.41%	-1.39%	4.06%	3.39%	3.13%
S&P/NZX NZ Government Bond Index	0.55%	-6.17%	1.24%	2.75%	3.23%

*With net dividends reinvested

Milford KiwiSaver plan is the proud winner of multiple awards:

consumer. PEOPLE'S CHOICE 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
NZ Govt. 0.5% 2026 2.35%	NZ Govt. 0.5% 2026 1.31%	Contact Energy 1.86%
Kiwibank 1.3% 2022 2.21%	Kiwibank 1.3% 2022 1.25%	Fisher & Paykel 1.33%
ANZ 1.45% 2022 1.96%	Contact Energy 1.19%	Alphabet 1.26%
NZLGFA 1.5% 2026 1.43%	ANZ 1.45% 2022 0.95%	Microsoft 1.18%
ANZ 2.999% 2031 1.03%	NZLGFA 1.5% 2026 0.80%	HCA Holdings 0.98%
Government of Australia 0.5% 2026 0.94%	Alphabet 0.79%	EBOS Group 0.96%
Housing NZ 3.36% 2025 0.70%	Microsoft 0.76%	Telstra 0.93%
NZLGFA 1.5% 2029 0.68%	Fisher & Paykel 0.72%	Mainfreight 0.92%
Vector 3.69% 2027 0.67%	ANZ 2.999% 2031 0.64%	Spark 0.92%
McDonald's 3.45% 2026 0.67%	Spark 0.64%	Virgin Money 0.91%

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).

KiwiSaver Active Growth Fund	KiwiSaver Aggressive Fund	KiwiSaver Cash Fund
Contact Energy 3.44%	Alphabet 2.78%	Westpac 45 Day WND 17.03%
Virgin Money 2.83%	Microsoft 2.68%	ANZ 1.1% 2022 6.57%
Alphabet 2.45%	Danaher 2.29%	ANZ 1.1% 2022 5.41%
Fisher & Paykel 2.23%	HCA Holdings 2.00%	SBS CD 2022 5.40%
Santos 2.05%	Mastercard 1.95%	Auckland Airport CD 2022 4.63%
Dr Horton 1.96%	Thermo Fisher 1.92%	Spark CD 2022 3.86%
CRH 1.95%	Wyndham Hotels 1.84%	Fonterra CD 2022 3.85%
HCA Holdings 1.90%	Aon 1.83%	Fonterra CD 2022 3.85%
EBOS Group 1.80%	Ametek 1.77%	Spark CD 2022 3.85%
Microsoft 1.75%	Intercontinental Exchange 1.74%	Genesis CD 2022 3.77%

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 $17.9 million invested in the Milford KiwiSaver Plan as at the end of December 2021.

Kate Power
Junior Investment Analyst

Investment Highlight: Neuren Pharmaceuticals

A promising new drug therapy for those with Rett Syndrome

In December, Neuren Pharmaceuticals and its partner Acadia Pharmaceuticals announced positive phase 3 clinical trial results for their experimental drug trofinetide in the treatment of Rett syndrome (see below). The results saw the stock price rally 135%.

Milford have owned Neuren Pharmaceuticals since October 2007. More recently we supported capital raisings in June 2020 and September 2021 and announced our substantial shareholder position in December 2021 with a 5.2% shareholding.

Improving the lives of people with neurodevelopmental disabilities

Neuren researches and develops new drug therapies for rare and debilitating neurodevelopmental disorders that appear in early childhood. Specifically, the diseases Neuren target are characterised by damaged connections and signals between brain cells. Rett syndrome is a severely debilitating disorder that is caused by a genetic mutation of the MECP2 gene. A typical child with Rett syndrome will have severe learning disabilities, respiratory problems, uncontrollable hand movements and seizures. There is currently no approved treatment for Rett syndrome, making the recent clinical trial success a huge moment for sufferers of Rett syndrome and their families.

Trofinetide is licensed to Acadia for North America, whereby Neuren is entitled to royalty and milestone payments upon commercialisation. Neuren retain the rights to the rest of the world, and we expect to see a licensing agreement for Europe announced in the next few months. Acadia will be seeking regulatory approval from the FDA in early 2023 so the drug is approved for sale in North America. We believe it is 90 to 95% likely to receive FDA approval given the strength of the phase 3 trial results and the fact that there is no alternative treatment for patients with Rett syndrome.

The market for trofinetide

The possible market size for trofinetide for Rett syndrome in North America is somewhere near US$500m in annual sales with Neuren receiving a 10-15% royalty share. The costs of the drug will be covered by insurance companies meaning families suffering from the disease should have access once the approval is received. The revenue opportunity for the drug outside of North America is expected to be similar in size.

Beyond Rett syndrome treatment, Neuren and Acadia will eventually conduct a phase 3 trial for trofinetide's treatment of other neurological disorders such as Fragile X Syndrome. Neuren also has earlier phase 2 trials for a second drug to treat other genetic diseases Phelan-McDermid syndrome, Angelman syndrome, Pitt Hopkins syndrome and Prader-Willi syndrome. If successful, the potential market size for this drug is much larger than trofinetide but is in earlier stage trials, so the chance of success is lower. That said, the success of trofinetide is an encouraging sign for the future of this drug.

Conclusion

After many years owning shares in Neuren we are very proud of their recent success. If trofinetide is approved by the FDA in early 2023, Neuren will be bringing aid to thousands of suffers of Rett Syndrome.

However, they are not there yet as the FDA may still deny the drug which would be extremely disappointing for Rett sufferers and would also likely result in the share price falling substantially - so investors must recognise this risk. But assuming success, we believe Neuren has a long way to go as a business and there should be upside from its pipeline of drug treatments for other genetic diseases.

We've been busy expanding our Team to better support you

Murray Harris
Head of KiwiSaver & Distribution

Supporting you, our KiwiSaver members, to achieve your savings goals and provide you with excellent service and advice is our top priority. That's why we've been busy adding to our KiwiSaver Team over the past few months, and I'd like to take this opportunity to introduce the Team to you.

Eachann Bruce, Milford KiwiSaver Plan Adviser

Eachann joined the Milford KiwiSaver team in 2019 as an Adviser. Since joining Milford in 2015, Eachann has spent time as an Associate in both the Investor Services and Private Wealth teams. He holds a NZ Certificate in Financial Services and a Bachelor of Commerce majoring in Finance and minoring in Economics from the University of Otago.

Eachann is a keen outdoors person where you'll find him running, cycling, swimming (sometimes all at once as he's competed in a few Ironman events) or playing golf. He sees KiwiSaver as not only a great retirement savings vehicle, but also a good way to learn about investing first-hand, especially for those new to investing.

Kirsten Bennett, Milford KiwiSaver Plan Adviser

Kirsten joined the Milford KiwiSaver team in 2021 as an Adviser with 17 years' experience in the banking and financial services industry. Prior to joining Milford, Kirsten worked as an Adviser at another KiwiSaver provider for close to 4 years after returning to New Zealand from Australia. Kirsten holds a NZ Certificate in Financial Services and a Diploma in Financial Services (Mortgage and Broking Management) from the National Finance Institute, Australia.

Kirsten describes herself as a "gym junky", getting her energy from daily group workouts. She also loves mountain biking and has recently purchased an E-Mountain Bike to explore even more trails. She gets a real thrill from helping people to navigate their important KiwiSaver decisions, be that buying their first home or entering retirement.

Liam Robertson, Milford KiwiSaver Plan Adviser

Liam joined the Milford KiwiSaver team in 2021 as an Adviser. Prior to joining Milford, Liam worked as a Workplace Savings and KiwiSaver Adviser and in Financial Services, Residential Lending and Property in both NZ and the UK. He holds a NZ Certificate in Financial Services and a Bachelor of Business Studies, majoring in Finance and Property Valuation from Massey University.

Liam is a keen sports fan – following all things rugby, league and cricket whilst also dabbling in the odd marathon, and as a fully trained pilot he enjoys recreational flying whenever he can. Having recently used KiwiSaver to save a deposit for his first home, he is a big advocate of the scheme and believes all Kiwis should be making the most of it.

Chevonne Groenewald, KiwiSaver Associate

Chevonne joined the Milford KiwiSaver team in 2021 as our KiwiSaver Associate. Prior to joining Milford, Chevonne worked as an Adviser and Client Relationship Manager for 2 and a half years at another KiwiSaver provider, where she developed a passion for the investment industry.

She has also obtained her NZ Certificate in Financial Services. She also loves the outdoors, being in the sunshine at the beach, swimming and socialising, or working in her garden and around the house. She also loves that KiwiSaver can help getting on the property ladder that little bit easier, and that it can then go on to build as a nice nest egg for retirement.

We're delighted to have this great Team onboard, and they look forward to talking to or meeting as many of you as possible in 2022 and beyond. If you'd like to speak with one of them about advice on your KiwiSaver goals and how to achieve them then you can contact them at kiwisaveradvice@milfordasset.com. They'll be only too pleased to help!