Milford KiwiSaver Plan
Monthly Review May 2022

A perfect storm

It's been a brutal start to 2022 for investors. Global shares are down nearly 14% at the end of April, marginally worse than they fared over the same period in 2020 when the Covid pandemic first emerged. Meanwhile, global bonds have fallen over 10% in their worst start to a year for decades. Our funds, that invest primarily in these assets, have delivered negative returns year to date as we have been buffeted by the headwinds. It's not pleasant to see savings moving backwards, but the backdrop has provided plenty of opportunity to actively manage our funds to avoid some of the worst losses and deliver better outcomes than those headline asset returns suggest.

The sharp falls in share markets in April meant there were few places to hide. Large holdings of cash have helped cushion funds from losses. Large exposure to Australian shares has also helped, the ASX 200 was down less than a percent in April, compared to global shares that fell 6.9%. Larger weights of banks and resource companies in the Australian market have fared better than the high growth companies that populate global indices.

Stock positioning has helped too across all regions. In Australia for example we have had increased exposure to supermarkets (Woolworths was up 3.4%) and energy companies (Santos was up 3.4%). NZ shares continue to fall, but our investments in Spark paid off as the company's shares rallied 7.4% last month. On the global side, Italian infrastructure company Atlantia benefitted from takeover talks, sending the stock up 20.8%. Recent addition Shell Energy also fared well, up 3.1%.

Looking ahead, the outlook remains highly uncertain. High inflation and tighter monetary policy are significant headwinds for growth and company profits. Uncertainty over the outlook for growth means we should continue to experience higher volatility in markets over the rest of this year. For the longer term, prospects are improving. The valuations of shares are now generally more moderate, having fallen from some expensive levels. The fall in bond prices mean that yields are looking more attractive too, particularly in New Zealand. We are retaining a broadly defensive position across our funds, whilst continuing to find attractively valued companies to invest in.

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KiwiSaver Conservative Fund

Portfolio Manager: Paul Morris

Bonds and shares broadly remain under pressure. Market interest rates continued to rise as central banks signal significant policy tightening will be required to tame inflation. This extended one of the worst routs in history for bond markets, the Fund's predominant exposure. Shares were also under pressure as valuations adjust to higher interest rates, risks to profit margins and the growing tail risk that policy makers could cause a recession.

Unfortunately, and irrespective of cautious positioning (less bonds and shares), the Fund still posted a negative return of 0.9% in the month. There were some bright spots however with defensive sectors such as infrastructure and utilities outperforming. This included Atlantia (European roads and airport operator) which was up 20.8% post a takeover offer, reiterating the attractive long-term investment properties of these types of assets.

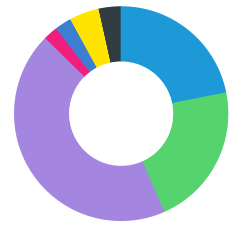
We have recently outlined a view that market interest rates are approaching long-run fair value. Thus far, we have been very selective in adding back to bonds, mindful risks remain skewed for further moves higher in interest rates. Nevertheless, we added to shorter-dated NZ Dollar bonds (where we think market expectations for rate hikes are too high), including via a new Precinct Property 6yr Green Bond.

We are still wary share markets have not fully adjusted to the headwind of higher market interest rates and higher economic uncertainty, including higher inflation. We have therefore retained share exposure lower than in recent quarters.

Looking ahead, near-term Fund returns may remain volatile but given market interest rates are now closer to fair value, over the medium term the Fund should be better placed to deliver moderate returns in line with its objective.

Finally, the lead portfolio manager of the Fund will now transfer to Mark Riggall, previously co-manager, with Paul Morris remaining as co-manager.

Actual investment mix[1]



Effective Cash# 21.90%
New Zealand Fixed Interest 21.57%
International Fixed Interest 43.86%
New Zealand Equities 2.16%
Australian Equities 2.53%
International Equities 4.49%
Listed Property 3.49%
Other* 0%

The actual cash held by the Fund is 13.62%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

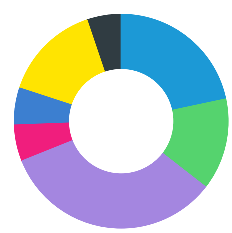
KiwiSaver Moderate Fund

Portfolio Manager: Mark Riggall

The Fund returned -0.6% in the month, with a one-year return of -0.6%. It's been a brutal start to the year, global shares are down nearly 14% and bonds are down over 10%. For the Moderate Fund that typically invests in 40% shares and 60% bonds there have been few places to hide. Fund performance of -2.4% in the past six months is disappointing in the sense that it's tough to experience negative returns. But given those asset moves, the Fund is weathering the storm reasonably well.

To avoid losses the Fund has held excess levels of cash this year, on top of derivative positions in place to protect against falls in the price of both shares and bonds. Stock selection has helped too, with a significant shift away from higher risk growth stocks and into more defensive companies and sectors such as healthcare and energy. Stock selection shined in April too with key position Atlantia up 20.8% on takeover talks and Spark in NZ up 7.4%.

This is continued evidence that despite the market headwinds, there remains plenty of opportunities for us to invest and profit from well selected company shares. Furthermore, bonds are offering more reasonable yields so prospects of the future returns are improving. We remain confident that our active approach can continue to deliver stronger returns in this tough environment.



Effective Cash# 21.67%
New Zealand Fixed Interest 13.86%
International Fixed Interest 33.40%
New Zealand Equities^ 5.49%
Australian Equities 5.60%
International Equities 14.78%
Listed Property 5.20%
Other* 0%

The actual cash held by the Fund is 12.61%. 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

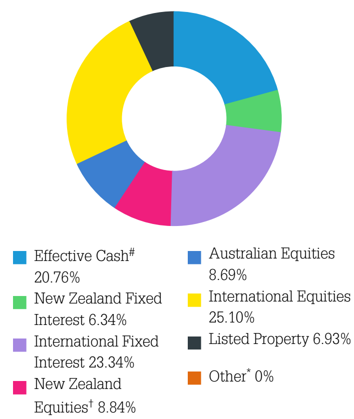
Portfolio Manager: Mark Riggall

The Fund returned -0.7% in April with a one-year return of 2.5%. It's been a brutal start to the year, global shares are down nearly 14% and bonds are down over 10%. For the Balanced Fund that typically invests in 60% shares and 40% bonds there have been few places to hide. The year-to-date Fund losses of 4.3% are disappointing in the sense that it's tough to experience negative returns. But given those asset moves, the Fund is weathering the storm reasonably well.

To avoid losses the Fund has held excess levels of cash this year, on top of derivative positions in place to protect against falls in the price of both shares and bonds. Stock selection has helped too, with a significant shift away from higher risk growth stocks and into more defensive companies and sectors such as healthcare and energy. Stock selection shined in April too with key position Atlantia up 20.8% on takeover talks and Spark in NZ up 7.4%. This is continued evidence that despite the market headwinds, there remains plenty of opportunities for us to invest and profit from well selected company shares.

Looking ahead, it is reasonable to expect more volatility. But the Fund is slowly adding back to NZ bonds as yields on offer are looking more attractive. Share positions will continue to fluctuate around a defensive position but we are confident our active approach can continue to deliver stronger returns in this environment.

Actual investment mix[1]



The actual cash held by the Fund is 10.82%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

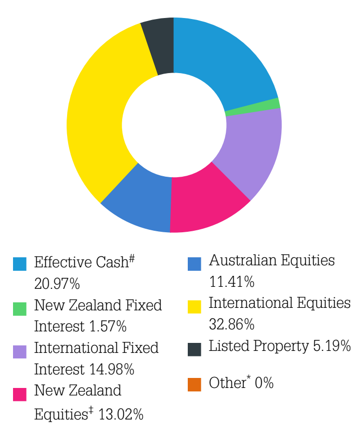
KiwiSaver Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund fell 1.8% in April, impacted by share market falls in Australia (-0.8%), New Zealand (-1.9%) and global (-6.9%). Share markets continue to be affected by uncertainty due to the war in Ukraine, high inflation, rising interest rates and the economic growth outlook. Rising inflation pressures and slower growth in response to higher interest rates may put pressure on future company profits. Higher interest rates also created a short-term headwind for fixed income markets with global (-2.0%) and Australian (-1.4%) fixed income indices we follow falling during April. The Fund out-performed market returns due to having more defensive strategies in place including higher cash holdings and avoiding companies with stretched valuations.

In terms of share investments there were relatively few places to hide during the month as investors looked to reduce risk given market uncertainty. Key positive holdings during the month were some of our more defensive company holdings including NZ telecommunications company Spark (+7.4%) and Australian property company Charter Hall Retail (+6.2%). Energy companies Santos (+3.4%) and Shell (+3.1%) benefitted from high oil prices. During the month the Fund continued to add to our holding in Shell, reflecting its strong cash generation even at lower oil and gas prices.

The outlook for shares remains uncertain. In the short term, growth remains robust, short-term interest rates low, and liquidity remains high. However, medium term there are headwinds with rising inflation hurting consumer income and company profit margins, and rising interest rates likely to slow growth. Company valuations have improved following market falls however in many cases remain above average. However, we believe that there are many companies which are attractively valued relative to their growth prospects. Across regions, New Zealand is our least preferred as interest rates have risen faster and are likely to impact growth sooner. Given the uncertain environment, the Fund remains selective in terms of share investment and is focused on those we believe have reasonable valuations and provide attractive returns relative to risk. The Fund also holds a higher level of cash.



The actual cash held by the Fund is 10.00%. 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 0.12% ‡ Includes unlisted equity holdings of 0.56%

* 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 3.3% in April, impacted by an outsized move in share markets on the last day of the month. Globally, share markets were on the back foot in April, with the technology heavy Nasdaq Index (-13.3%) having its worst monthly performance since the Global Financial Crisis in 2008.

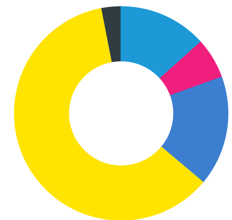
In our international portfolio, there were a few bright spots. US budget hotel operator Wyndham Hotels & Resorts (+3.9%) delivered a solid performance, benefitting from the recovery in domestic travel. There is huge pent-up demand for leisure travel as the economy reopens. Italian infrastructure group Atlantia (+20.8%) was another strong contributor, on news of a takeover bid from private equity company Blackstone & the Benetton family. US payments giant Mastercard (+1.8%) was one of the few technology companies to make gains in April.

The biggest detractor in April was Alphabet (-17.7%) which had its worst month since 2008, as quarterly results missed analyst expectations. Alphabet's results were impacted by a slowdown in advertising spend in Europe as a result of the war in Ukraine along with a moderation in growth at YouTube. Other detractors included US financial services group Charles Schwab (-21.3%) and US hospital operator HCA (-14.4%).

Closer to home, Australian markets were resilient in April. Strong performers included natural gas giant Santos (+3.4%) and supermarket operator Woolworths (+3.4%). Less positive, lithium and nickel miner IGO (-6.3%) gave back some its strong March gains. Locally, Fisher & Paykel Healthcare (-11.7%) underperformed as demand softens for its products as the pandemic subsides.

Looking ahead, the economic outlook remains uncertain, given elevated inflation and the ongoing conflict in Ukraine. We maintain higher cash levels to allow us to take advantage of the volatility, through adding to our favoured names at cheaper prices.

Actual investment mix[1]



- Effective Cash# 13.39%
- New Zealand Equities 6.12%
- Australian Equities 16.65%
- International Equities 60.77%
- Listed Property 3.07%
- Other* 0%

The actual cash held by the Fund is 14.33%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

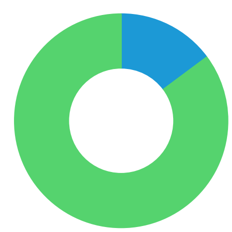
KiwiSaver Cash Fund

Portfolio Manager: Travis Murdoch & Katlyn Parker

April's Reserve Bank of New Zealand (RBNZ) Monetary Policy Review saw the Official Cash Rate (OCR) increased by 0.5 percentage points to 1.5 percentage points.

Short-dated NZ Dollar bank bills, a reflection of interbank funding levels, continued their move higher throughout the month. This was driven by heightened market expectations of faster paced OCR increases with the market attaching a very strong probability of the RBNZ delivering another 0.5 percentage point increase to the OCR at the upcoming May meeting. Looking forward, this should continue to benefit the Fund by increasing the interest rates into which it can progressively reinvest maturing holdings. Our base case remains for higher interest rates from here, although elevated market expectations seem higher than what may be realised.

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.



- Effective Cash# 14.83%
- New Zealand Fixed Interest 85.17%
- Other* 0%

The actual cash held by the Fund is 14.83%. 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	-0.93%	-3.47%	2.78%	3.93%	7.17%	1.9084	186.5 M
KiwiSaver Moderate Fund	-0.56%	-0.55%	—	—	7.99%	1.1721	91.3 M
KiwiSaver Balanced Fund	-0.68%	2.50%	8.81%	8.49%	9.81%	2.9693	908.1 M
KiwiSaver Active Growth Fund^	-1.84%	2.28%	10.88%	11.03%	12.30%	5.0379	3,021.1 M
KiwiSaver Aggressive Fund	-3.31%	-0.70%	—	—	11.87%	1.3563	769.2 M
KiwiSaver Cash Fund	0.11%	0.70%	—	—	0.53%	1.0112	56.1 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)	-1.86%	-5.98%	6.62%	10.95%	11.90%
S&P/ASX 200 Accumulation Index (AUD)	-0.85%	10.16%	9.41%	8.81%	7.94%
S&P/ASX 200 Accumulation Index (NZD)	0.56%	12.04%	10.76%	8.93%	8.80%
MSCI World Index (local currency)*	-6.90%	-0.11%	10.91%	10.41%	9.08%
MSCI World Index (NZD)*	-1.74%	6.66%	11.41%	11.41%	11.11%
S&P/NZX 90-Day Bank Bill Rate	0.08%	0.59%	0.78%	1.26%	1.67%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	-2.69%	-6.75%	0.36%	1.56%	1.80%
S&P/NZX NZ Government Bond Index	-2.37%	-9.97%	-1.94%	0.92%	1.85%

*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
NZLGFA 2.25% 2028 1.53%	Contact Energy 1.43%	Contact Energy 2.23%
NZLGFA 1.5% 2026 1.35%	NZGBI 2% 2025 1.24%	NZGBI 2% 2025 1.31%
NZLGFA 2.25% 2024 1.25%	NZLGFA 2.25% 2028 0.89%	HCA Holdings 1.18%
NZGBI 2% 2025 1.18%	HCA Holdings 0.80%	Microsoft 1.08%
NZLGFA 4.5% 2027 0.90%	NZLGFA 1.5% 2026 0.78%	Santos 1.05%
CBA 2.552% 2027 0.78%	NZLGFA 2.25% 2024 0.73%	Telstra 1.00%
IAG 5.32% 2038 0.74%	Telstra 0.69%	Spark 0.96%
Housing NZ 3.36% 2025 0.68%	Spark 0.69%	Virgin Money 0.93%
McDonald's 3.45% 2026 0.66%	Microsoft 0.68%	Anthem 0.92%
John Deere 1.75% 2024 0.66%	Anthem 0.68%	Alphabet 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 3.94%	Boston Scientific 2.52%	Westpac 45 Day WND 14.21%
Virgin Money 2.71%	Microsoft 2.50%	Spark CD 2022 6.43%
Microsoft 1.92%	Shell 2.45%	ANZ 1.35% 2022 5.89%
CRH 1.89%	Wyndham Hotels 2.37%	Auckland Airport CD 2022 5.85%
HCA Holdings 1.89%	Alphabet 2.28%	ANZ 1.32% 2022 4.71%
Natwest 1.74%	HCA Holdings 2.17%	SBS CD 2022 4.10%
Santos 1.70%	Anthem 2.00%	Fonterra CD 2022 3.52%
Charter Hall Retail 1.62%	Aon 1.99%	ANZ 1.55% 2022 2.94%
Shell 1.61%	Visa 1.83%	ANZ 1.84% 2022 2.94%
JPMorgan 1.60%	EOG Resources 1.77%	Genesis CD 2022 2.93%

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 $16.7 million invested in the Milford KiwiSaver Plan as at the end of April 2022.

Felix Fok
Portfolio Manager

Investment Highlight: Costco

More than just a retailer

Retailers bring value to the consumer by offering a broad range of goods, assurance of quality, lower prices, and convenience.

TradeMe users will appreciate the access it brings with just a button click, from second-hand baby gear to sports equipment to limited-edition collectables, like a P12 Martin Jetpack. There is something for everyone.

Convenience depends on circumstances. Some items you want right away and would drive to a store to pick it up, some you want to touch and feel before committing, while others can wait to have it shipped.

The industry jargon 'omnichannel' refers to enabling the choice between pick-up in-store or delivery as you buy online or just shop in stores the traditional way. 'Omni' covers all bases and, importantly, entails a role for the physical store.

Hypermarket operator Costco scores well on these measures. With nearly 600 warehouses in the US (a total of more than 800 globally), each with a floor area at least twice that of a Pak'nSave, it offers a wide range of items from diamond rings to $1.50 hotdogs to petrol, as well as pharmacies and travel agents.

On price, the most intuitive form of value, many of Costco's products are sold in bulk directly off the pallet, hence the 'wholesale' descriptor. It sells to retail customers at wholesale prices for an annual membership fee.

This subscription feature is not widely adopted by retailers as the scheme is difficult to get going.

In asking for $60 upfront, Costco loses the casual shopper who might otherwise have dropped in and spent a few dollars but creates exclusivity for its members to access its low prices. It is potentially a virtuous cycle that sees low prices attract new members; more members drive better economics and purchasing power over suppliers, which results in lower prices and member loyalty. Members who have already paid their dues feel compelled to extract value by shopping more at Costco. Costco has 63mn paying subscribers generating $4bn in fees with a 90% plus renewal rate. This highly recurring income underpins its financials and valuation.

Another reason Costco can offer wholesale prices is product selection. While it aims to provide breadth across categories, it focuses its purchases on fewer options within each category; a typical Costco store will have 4,000 different products, whereas a Walmart might have 100,000. This gives it more bargaining power over its suppliers than other retailers.

Furthermore, unlike some overt discounters, product quality is not sacrificed. Its house brand, Kirkland Signature, is ubiquitous in its stores and makes up c.30% of customer baskets, generating $59bn in revenues! While many retailer house brands are seen as inferior to branded goods, Kirkland has been positioned as premium products at discount prices over the past two decades and Costco continues to add to the Kirkland range. Despite being available only at Costco stores, Kirkland has annual sales that rival major global consumer brands.

Steadily growing subscription revenues and having one of the largest consumer brands are attributes that make Costco more than just a retailer. Still, retailing risks are many, including labour and competition.

An area of focus will be international expansion, particularly in China which has seen many Western grocers turn tail. Closer to home, Costco already has 13 stores in Australia and is opening its first in NZ in the second half of this year.

The closest thing to free money

Would you like an extra payment of up to $521.43 paid directly to your KiwiSaver account? Each year, KiwiSaver members have the opportunity to receive this top up from the Government. Last year the Government made contributions of $908 million[1] towards KiwiSaver members' retirement savings. However, this represented only 63% of members making the most of the benefit available.

To see if you're on track to receive a Government Contribution, keep an eye out for the below button when you next login to your Client Portal or Mobile App!

Will you receive your $521?

Click Here to Find Out

Eachann Bruce
Financial Adviser

Who gets a Government Contribution?

To be eligible, you must be:

- Aged 18 years or older and not yet eligible for retirement withdrawals[2], and
- Live mainly in New Zealand[3]

You should receive the full Government Contribution if you've been in KiwiSaver for the full year (1 July to 30 June) and have contributed at least $1042.86. If you have contributed less than $1042.86 the Government will still match what you have contributed with 50 cents for every dollar you've contributed. If you haven't been a KiwiSaver member for the full year you could still get a proportional top up from the Government.

Please note, the Government Contribution only applies to your own contributions i.e. employee contributions and any voluntary contributions you have made. It does not apply to your employer's contributions.

Check to see if you have contributed enough

Log into your Milford Client Portal and use our Government Contributions Calculator.

Alternatively, you can check by logging into your MyIR account at www.ird.govt.nz/kiwisaver. Go to "View transactions" and filter on transaction type "Deductions from salary/wages" and the date range from 01/07/2021 to 30/06/2022 to see if you've contributed at least $1042.86

How to top up:

Make a payment or set up a Direct Debit – login to your Client Portal, then navigate through to Payments & Transactions to make a payment.

You may also want to consider increasing your employee contribution rate to ensure you've made sufficient contributions for future years.

When will I receive the Government Contribution?

We'll claim any Government Contribution on your behalf, and you can expect payment into your KiwiSaver account around late July. If you have contributed enough, you don't have to do anything else.

It's worth taking a few minutes now to check if you've contributed enough. Don't be like some of the thousands of members who missed out on their full top up last year.

1. IRD KiwiSaver Statistics (https://www.ird.govt.nz/about-us/tax-statistics/kiwisaver) **2.** If you joined KiwiSaver before 1 July 2019 and were aged between 60 and 64 inclusive and haven't yet made a retirement withdrawal, you will also be eligible. If you are unsure, please contact us on info@milfordasset.com or 0800 662 346. **3.** There are exceptions for government employees who are serving outside New Zealand or persons working overseas as volunteers.