Milford KiwiSaver Plan
Monthly Review June 2022

Half-time huddle

Share markets continue to be volatile as they adjust to the evolving backdrop. Although global shares staged a strong rally into the end of the month, it remains too soon to sound the 'all clear' on market volatility.

As we have been writing all year, global bond and share markets are adjusting to a regime of higher interest rates as central banks fight inflation. This adjustment process will take time, and there remains the risk that an aggressive series of interest rates hikes will push economies into recession. Investors are attuned to this risk and with global bond markets already expecting many interest rate hikes, the global bond sell-off stalled last month. Expected returns from bonds are improving and we continue to add exposure, particularly on the corporate side where high single digit yields are on offer. For example, last month we invested in the loan financing the 2 Degrees/Orcon merger in NZ.

Share markets continue to unwind the excesses of the last two years. This means that many of the companies whose share prices soared in the last two years are struggling this year as high valuations come back down to earth. The next stage of this process is profit warnings from companies as revenues stall and costs (including wages, fuel costs and other input prices) continue to rise. However, some companies are currently experiencing their own profit boom. This is primarily in the energy and materials space as commodity prices continue to soar. Key picks last month, EOG Resources (+17.3%) and BHP Group (+4.4%) are two companies falling into this category.

A volatile backdrop means we continue to be highly active, with large swings in fund exposures. This is particularly true across our diversified funds that can choose to allocate across different asset classes. Overall, our funds retain a more defensive stance, with lower exposure to share markets and higher cash balances. We are still finding opportunities for investment though, both in bonds (as outlined above) as well as shares. With a rapidly evolving outlook, Milford's investment team is constantly adapting and positioning the funds according to that backdrop.

Milford Asset Management
Level 28, 48 Shortland Street, Auckland, 1010
Phone: 0800 662 346
Email: Info@milfordasset.com
milfordasset.com

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KiwiSaver Conservative Fund

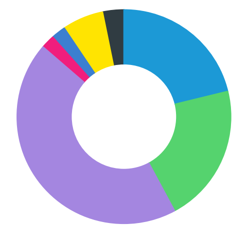
Portfolio Manager: Mark Riggall

The Fund returned -0.5% in the month with a one-year return of -3.9%. Share markets were volatile last month - although global shares finished the month unchanged it took a late month 7% rally off the lows to do so. This type of move has been commonplace this year and will likely persist in the coming months - big swings up and down.

The Conservative Fund's small exposure to shares should help insulate the Fund from this volatility, with further defensive measures taking the Fund’s share exposure even lower. In addition, the Fund has significantly reduced exposure to global growth companies as these are most likely to be at risk from further weakness in the months ahead. Encouragingly, last month saw a pause in the global bond sell-off that has been the source of weakness for the Fund.

With bond markets already pricing in many interest rate hikes, we are starting to invest more into bonds. This includes NZ bonds but also global corporate bonds that are offering high single digit returns. The bond market is likely to continue to be volatile, but future returns are looking much more attractive given the yields on offer. We continue to find good bonds and shares to invest in to deliver steady returns, but the Fund will retain a broadly defensive stance going forward, in the expectation of further volatility.

Actual investment mix[1]



- Effective Cash# 21.19%
- New Zealand Fixed Interest 20.95%
- International Fixed Interest 44.19%
- New Zealand Equities 2.06%
- Australian Equities 2.18%
- International Equities 6.22%
- Listed Property 3.21%
- Other* 0%

The actual cash held by the Fund is 14.50%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

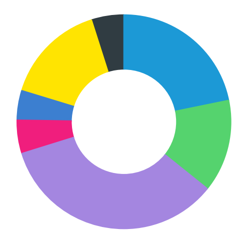
KiwiSaver Moderate Fund

Portfolio Manager: Mark Riggall

The Fund returned -0.9% in the month with a one-year return of -1.6%. Global markets continue to be volatile. Global shares ended the month unchanged, but that was only after a 7% late month rally. We think volatility like this will persist over the months ahead.

Bond markets have also seen volatility, although valuations of bonds are now looking more attractive. Aggressive interest rate rises are already priced in (particularly in NZ) and global corporate bonds are offering more attractive yields. We have been adding to bonds in the Fund, particularly corporate bonds where we can get high single digit yields.

We have retained a more defensive share exposure, with lower overall exposure to shares and a more defensive mix of shares. We continue to reduce exposure to high growth companies as these are at further risk of revaluation. Although we are cautious on the outlook, we are still finding reasonable investments, both in shares and bonds.



- Effective Cash# 21.79%
- New Zealand Fixed Interest 13.97%
- International Fixed Interest 34.44%
- New Zealand Equities^ 5.04%
- Australian Equities 4.47%
- International Equities 15.37%
- Listed Property 4.92%
- Other* 0%

The actual cash held by the Fund is 12.69%. 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 0.07% *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 -1.5% in the month with a one-year return of 0.8%. Although global shares finished the month unchanged it took a late month 7% rally off the lows to do so. This type of move has been commonplace this year and will likely persist in the coming months - big swings up and down.

One silver lining last month was a pause in the global bond market sell-off. With many interest rate hikes now factored into bond prices, there are some good opportunities emerging to invest. The Fund has been increasing exposure to NZ bonds as well as selected global corporate bonds that can deliver high single digit yields. The share market exposure in the Fund has been fluctuating as the outlook evolves and to capture some of the large swings in markets. From a 60% neutral position, the Fund has been moving between 45% and 55% exposure to shares this year. The type of share exposure has also changed, with a significant reduction in exposure to global growth companies as these are most at risk from further declines in valuation.

Looking ahead, further volatility is likely. For this reason, the Fund retains its defensive stance of around 50% exposure to shares, with good conviction in those shares that we still hold. Increased exposure to bonds should also start to offer some steady returns on the other side, helping mitigate any further broad falls in share markets.

Actual investment mix[1]

The actual cash held by the Fund is 9.95%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

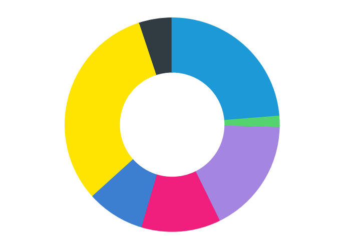
KiwiSaver Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund fell 1.1% in May in what was another volatile month for share market indices (New Zealand -4.9%, Australia -2.6%, global -0.2%). Share markets continue to be impacted by uncertainty due to the war in Ukraine, high inflation, rising interest rates and the economic outlook. The New Zealand share market fell in response to rises in interest rates which put pressure on company valuations and company earnings. The Reserve Bank of New Zealand lifted the official cash rate by 0.5% to 2.0% during the month and forecast rates going to 3.9% in the middle of next year. The Fund out-performed market returns due to having more defensive strategies in place including lower weights toward shares and avoiding companies with stretched valuations.

Key company performers during the month included energy companies; EOG (+17.3%) and Shell (+11.8%) and global banks Barclays (+14.1%) and JP Morgan (+10.8%). Energy companies continue to benefit from high oil prices and the strong cashflows that they generate. Global banks are a beneficiary of higher interest rates as they are able to deploy their assets at higher yields. During the month the Fund added to our holding in small business accounting and tax software company Intuit. Intuit reported a strong quarterly result with revenues up 35%. We believe Intuit is attractively valued, well managed and has a long runway for future growth.

The short-term outlook for shares remains uncertain with headwinds of higher inflation and higher interest rates which are likely to slow medium-term company growth prospects. Share market valuations have generally improved following market falls and in many cases now reflect a more difficult earnings outlook and high levels of uncertainty. Given the uncertain environment, the Fund remains more defensively positioned than typical, with a lower weight towards shares. The Fund has increased its holdings in fixed income securities which we believe are reflecting the possibility of higher interest rates. The Fund remains active to isolate those companies which we believe have strong risk adjusted return prospects.



The actual cash held by the Fund is 8.37%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

† Includes unlisted equity holdings of 0.13% ‡ Includes unlisted equity holdings of 0.55%

* 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 1.2% in May, in what turned out to be a very volatile month for global share markets. Elevated oil prices, disrupted supply chains and rising wage costs are leading to more persistent inflationary pressures than expected, forcing central banks to accelerate interest rate hikes.

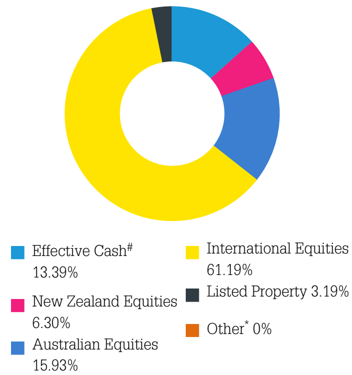
In our international portfolio, energy-related names were the standouts as the oil price rallied. US energy company EOG Resources (+17.3%) rose strongly, after releasing healthy results and introducing a structured shareholder return policy that will lead to very "juicy" dividends for investors. We are encouraged by their emission reduction targets and will be monitoring this closely. Shell (+10.3%) was another outperformer in May and continues to make progress in reducing emissions. We believe Shell is one of the best energy companies managing the transition to a lower carbon world, with their significant investment in renewable energy such as wind power. Semiconductor company Analog Devices (+9.6%) contributed positively as demand remains robust for their products, despite growing economic concerns.

The biggest detractor in May was US hotel chain Wyndham Hotels & Resorts (-8.9%), despite reporting strong first quarter results and seeing a strong recovery in leisure spending in the US. Industrial real estate company Prologis (-20.5%) also had a weak month, as investors continued to rotate out of "Covid winners".

Closer to home, Australasian markets underperformed in May. Strong performers included iron ore producer BHP (+4.4%) and natural gas giant Santos (+2.5%). Negative contributors included property company Goodman Group (-14.3%) and supermarket Woolworths (-10.0%). Locally, Contact Energy (-8.9%) was the main detractor.

Looking ahead, the economic outlook remains uncertain, given elevated inflation and the ongoing conflict in Ukraine. We remain defensively positioned and anticipate more volatility ahead.

Actual investment mix[1]



The actual cash held by the Fund is 15.86%. 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

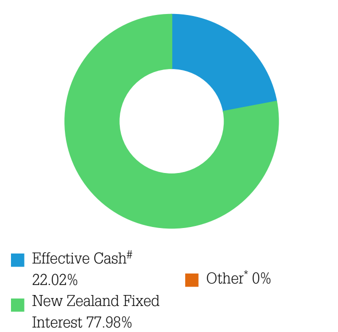
Portfolio Manager: Travis Murdoch & Katlyn Parker

The RBNZ Monetary Policy Statement in May saw the Official Cash Rate (OCR) increased by 0.5 percentage points to 2 percentage points.

Short-dated NZ Dollar bank bills, a reflection of interbank funding levels, continued their move higher throughout the month driven by heightened market expectations of faster paced OCR increases in the near term.

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 albeit as it stands 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.



The actual cash held by the Fund is 22.02%. 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	-0.50%	-3.91%	2.42%	3.66%	7.05%	1.8988	191.4 M
KiwiSaver Moderate Fund	-0.94%	-1.63%	—	—	7.20%	1.1609	95.6 M
KiwiSaver Balanced Fund	-1.45%	0.81%	8.32%	7.99%	9.60%	2.9258	911.4 M
KiwiSaver Active Growth Fund^	-1.14%	0.62%	10.38%	10.54%	12.13%	4.9792	3,051.2 M
KiwiSaver Aggressive Fund	-1.21%	-2.12%	—	—	11.01%	1.3396	765.8 M
KiwiSaver Cash Fund	0.14%	0.82%	—	—	0.58%	1.0127	73.0 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.
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)	-4.81%	-7.55%	4.5%	9.73%	10.96%
S&P/ASX 200 Accumulation Index (AUD)	-2.6%	4.84%	7.84%	8.84%	7.48%
S&P/ASX 200 Accumulation Index (NZD)	-1.99%	8.64%	9.16%	9.93%	7.84%
MSCI World Index (local currency)*	-0.23%	-1.36%	13.01%	10.03%	8.84%
MSCI World Index (NZD)*	-0.22%	6.45%	12.7%	11.64%	9.96%
S&P/NZX 90-Day Bank Bill Rate	0.12%	0.68%	0.77%	1.25%	1.64%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	-0.14%	-7.09%	-0.16%	1.41%	1.84%
S&P/NZX NZ Government Bond Index	0.12%	-9.26%	-2.3%	0.68%	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 1.46%	Contact Energy 1.37%	Contact Energy 2.13%
NZLGFA 1.5% 2026 1.29%	NZGBI 2% 2025 1.25%	NZGBI 2% 2025 1.35%
NZLGFA 2.25% 2024 1.20%	NZLGFA 2.25% 2028 0.87%	Santos 1.08%
NZGBI 2% 2025 1.17%	NZLGFA 1.5% 2026 0.77%	HCA Holdings 1.04%
NZLGFA 4.5% 2027 0.91%	NZLGFA 2.25% 2024 0.71%	Microsoft 0.97%
CBA 2.552% 2027 0.79%	Santos 0.71%	Anthem 0.94%
IAG 5.32% 2038 0.69%	HCA Holdings 0.70%	CSL 0.92%
John Deere 1.75% 2024 0.69%	Anthem 0.66%	Charter Hall Retail 0.91%
Westpac 4.043% 2027 0.67%	Telstra 0.63%	Natwest 0.90%
McDonald's 3.45% 2026 0.66%	Charter Hall Retail 0.62%	Boston Scientific 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 3.65%	Shell 2.72%	Westpac 45 Day WND 14.56%
Virgin Money 2.37%	Microsoft 2.59%	Auckland Airport CD 2022 4.93%
Shell 2.17%	Boston Scientific 2.48%	Spark CD 2022 4.17%
CRH 2.05%	Alphabet 2.28%	Kiwibank 2.7% 2022 3.81%
JPMorgan 1.93%	Anthem 2.16%	Fonterra CD 2022 3.79%
Natwest 1.82%	Danaher 2.00%	Contact CD 2022 3.42%
Boston Scientific 1.81%	EOG Resources 1.99%	SBS CD 2022 3.41%
Microsoft 1.80%	Wyndham Hotels 1.95%	Spark CD 2022 3.04%
NatWest 5.125% Perpetual 1.78%	Aon 1.92%	Mercury CD 2022 3.04%
EOG Resources 1.61%	Visa 1.86%	SBS CD 2022 2.66%

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 $16.6 million invested in the Milford KiwiSaver Plan as at the end of May 2022.

Ian Robertson
Senior Analyst

Investment Highlight: T-Mobile

T-Mobile is the second largest US telecom company by subscribers. In 2021 it generated over US$80bn in revenue from providing mobile phone and wireless internet services to over 108 million customers.

Today's T-Mobile was formed in April 2020 when T-Mobile acquired Sprint Communications ("Sprint"). The transaction consolidated the US telecom market from four major wireless players to three. It also grew T-Mobile's scale to better compete, sought to generate cost synergies (or savings) of over US$7bn and gave T-Mobile access to Sprint's large spectrum assets – crucial for T-Mobile's 5G rollout.

To fund the acquisition of Sprint, T-Mobile raised a large amount of debt, leaving post-acquisition debt high relative to earnings. The expectation was that integration of the two companies over the following three years would improve T-Mobile's credit profile through earnings growth (including via cost savings) and using cash flow to manage debt towards more appropriate long-run levels.

The planned integration of two different business cultures, operations, telecom networks, and the migration of Sprint's customer base, while also rolling out its 5G network, was not without risks. Our analysis, however, gave us confidence in management's capabilities to successfully execute the integration while maintaining business momentum, generating sufficient cash flow to fund the material associated costs, and leveraging its strong spectrum assets. We expect that in time, merger-related and 5G spend will subside, and cost synergies be realised, generating significant cash flow to support its credit profile.

Investment thesis for investing in T-Mobile's unsecured bonds

Some of the debt raised by T-Mobile was directly secured by some of T-Mobile's assets and some was unsecured. Given the superior position of the secured debt, this was rated 'Investment Grade' by rating agencies. The unsecured debt was rated 'high yield' and offered a higher return in compensation for its weaker position.

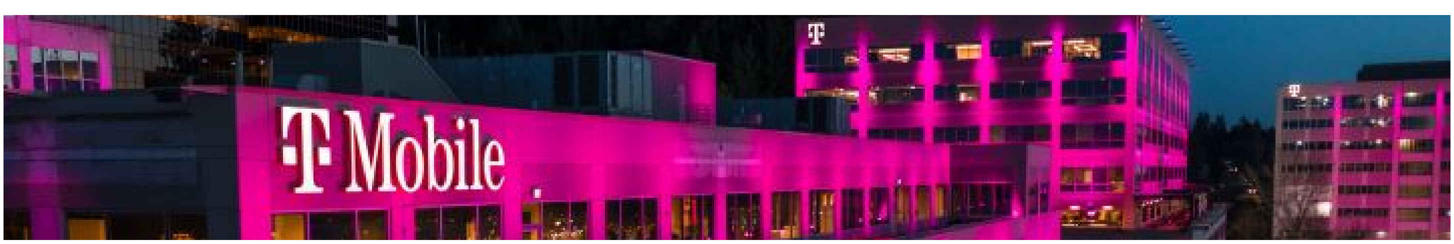
We expected, and continue to expect, that as T-Mobile successfully executes the integration, its credit profile will improve so that the unsecured bonds will also become Investment Grade. Not only should this see the return on the unsecured bonds outperform T-Mobile's secured bonds as its traded yield (or interest rate) would fall on a relative basis (lower yield for bonds means higher price), but it represents an attractive risk/reward opportunity relative to many other bonds available in the market (where companies often aim to maintain, rather than improve their credit profile).

Progress against our thesis

To date T-Mobile's integration continues to plan, progressing customer, operational, and network milestones and achieving cost synergies. More broadly, in a highly competitive market it continues growing earnings organically – via subscriber growth and strategic initiatives such as its 5G rollout – well ahead of its peers.

This progress has supported our investment thesis. Late last year rating agency Fitch upgraded the unsecured bonds to Investment Grade, and in May Standard and Poor's put their rating on 'Credit Watch Positive', suggesting they too may upgrade the unsecured bonds to Investment Grade.

We continue to believe the unsecured bonds offer an attractive reward for the level of risk and anticipate further credit and associated rating improvements which should drive outperformance of the bonds. We see global investment opportunities such as this as offering good, liquid, opportunities for attractive risk adjusted returns and portfolio diversification not readily available in Australasia.



Investing during volatility

Eachann Bruce
Financial Adviser

Whether you've been with Milford for a short period of time or the past 10 years, market falls, and seeing your balance going backwards can be unsettling.

If you're investing for the long haul, as most KiwiSaver investors are, it pays to ignore short-term market movements and invest for long-term growth.

The trouble is, fighting your emotions while investing isn't easy. Loss aversion tells us that humans are hard wired to dislike losses twice as much as we enjoy gains, and recency bias means we tend to place heavy importance on the most recent piece of information or experiences rather than considering longer-term realities. These human instincts can lead investors to make poor decisions that seriously impact their long-term returns.

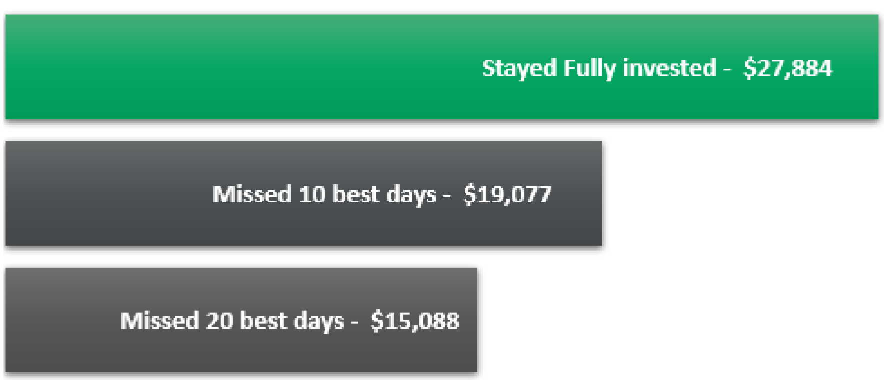
In the midst of a financial storm when an investor's portfolio values are falling, it's difficult for that investor to remember that, over time, equity markets typically recover despite being hit by crisis from time to time.

If you step back from a period of volatility in markets and focus on a 5-year (or longer) investment time horizon, more often than not you would have a better investment outcome by remaining invested. It may be tempting to switch to a more conservative fund to ride out the volatility. The problem with trying to 'time' the market is that markets can move up and down very quickly. Those attempting to sell out and jump back in when markets rebound will likely miss some of the market's best days.

The below chart demonstrates, that missing even 10, or 20 of the best days in the market can lead to a much lower return than if you had stayed invested the whole time. It's also worth noting that historically, the best days have often followed shortly after the worst days.

Stay invested so you don't miss the market's best days

$10,000 invested in the NZX 50 (31/12/2006–31/05/2022)



By staying fully invested over the past 15 years, an investor would have earned $8,807 more than someone who missed the market's 10 best days.

Past performance is not a guarantee of future results.

At Milford, we are an active manager, and will be taking action to try and cushion the impact of negatively moving markets. Whilst short-term volatility can be un-nerving, if you've considered your Goal, Investment Time Horizon, and Tolerance for Risk, then staying the course during volatility is incredibly important, as it's the "time in the market, not timing the market" that is most important when investing.

If you need help considering your fund selection, then please feel free to reach out to our Milford KiwiSaver Advice Team at kiwisaveradvice@milfordasset.com