Milford KiwiSaver Plan
Monthly Review August 2022

A welcome respite

July saw shares and bonds recover from their June rout. This brought some welcome positive returns for funds that were up between 2.5% for the Conservative Fund and 6.9% for the Aggressive Fund.

A clear catalyst for market strength has been second quarter earnings reported by US companies. Weakening global growth led to fears that earnings would suffer. Whilst there have been notable disappointments, the large technology companies broadly delivered strong enough reports to allay the worst concerns and boost global share markets. For Milford's holdings, solid reports from HCA Healthcare and Intuit helped propel these companies shares up 26.4% and 18.5% respectively in July.

Australian and NZ share markets also benefitted from the share market rally with both markets up around 6% in July. Global bond markets ended July over 2% higher too, meaning global share and bond markets almost fully recovered their steep June losses.

July saw global central banks hike interest rates sharply. But with peaking global inflation and weaking economic growth, many investors are expecting a coming pause in the hiking cycle and thus that the worst is over for beleaguered share markets – we believe that amounts to wishful thinking.

Central banks are hiking interest rates to combat inflation, and whilst inflation is likely to moderate from its current eyewatering levels, we think it is unlikely to revert all the way back to 2% targets and stay there. This means central banks will have to keep hiking or maintain interest rates at elevated levels for longer, further damaging economic activity.

Whilst current earnings are reasonable, future profits are likely to be impacted by weaker demand and pressure on profit margins. It is difficult to get too excited about share markets in the near term, given uncertainty over profits and valuations that are not broadly cheap. Therefore, we remain cautiously invested with less exposure to shares and higher cash levels.

Despite the backdrop, we continue to find companies with good outlooks priced at attractive valuations. This is the focus of our investing activities and gives us confidence in the prospect of good, long-term returns.

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KiwiSaver Conservative Fund

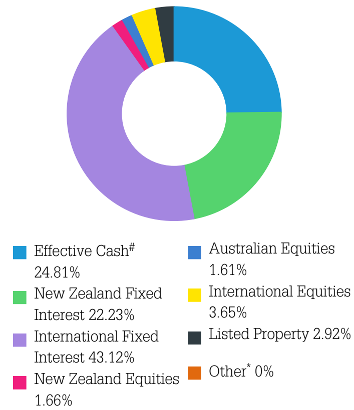
Portfolio Manager: Mark Riggall

The Fund returned 2.5% in July bringing the 1-year return to -4.4%. Strong rebounds in both bond and share markets in July allowed the Fund to more than recoup the losses seen in July. Whilst this is a welcome respite from the string of weaker markets seen this year, we remain concerned about the outlook and retain a cautious stance in the Fund.

Performance in July was boosted by a strong performance from corporate bonds, a position we had been adding to previously. The Fund's small share exposure helped too with outsize moves by stocks such as HCA Healthcare and Intuit, up 26.4% and 18.5% respectively, on the back of reporting strong results. The strength in bonds was due to weaker growth and expectations that inflation will subside, leading central banks to slow, stop and then reverse interest rate hikes soon. We are sceptical of this view; inflation is unlikely to dissipate as quickly as market participants expect.

As a result, we will be using any strength in corporate bonds to reduce some exposure, whilst retaining confidence in the companies that we do own. The Fund's share exposure is likely to remain at minimum levels of around 10%, reflecting the cautious outlook.

Actual investment mix[1]



The actual cash held by the Fund is 15.59%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

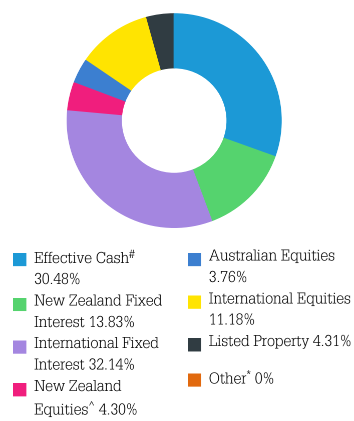
KiwiSaver Moderate Fund

Portfolio Manager: Mark Riggall

The Fund returned 3.0% in July bringing the 1-year return to -3.4%. Strong rebounds in both bond and share markets in July allowed the Fund to recoup most of the losses seen in July. Whilst this is a welcome respite from the string of weaker markets seen this year, we remain concerned about the outlook and retain a cautious stance in the Fund.

Performance in July was supercharged by some strong returns from some key shareholdings but also our tilt towards corporate bonds that outperformed government bonds in July. The broad strength in financial markets was attributed to company profit reports that were not as bad as feared, coupled with expectations that we are close to the end of interest rate hikes in this cycle. On both these fronts we are more sceptical.

Company profits are likely to be under pressure for some time owing to the weaker economic outlook and margin squeezes. Meanwhile, inflation is unlikely to dissipate as quickly as market participants expect. As a result, we will be using any strength in shares to reduce general exposure, whilst retaining confidence in the companies that we do own. We still prefer to own corporate bonds for their reasonable return outlook but here too we will be patient before adding to our positions. The road ahead will continue to be bumpy.



The actual cash held by the Fund is 19.24%. 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

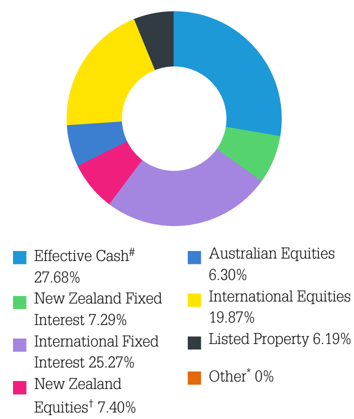
Portfolio Manager: Mark Riggall

The Fund returned 4.2% in July bringing the 1-year return to -1.7%. Strong rebounds in both bond and share markets in July allowed the Fund to recoup the losses seen in July. Whilst this is a welcome respite from the string of weaker markets seen this year, we remain concerned about the outlook and retain a cautious stance in the Fund.

Performance in July was supercharged by some strong returns from some key shareholdings such as HCA Healthcare and Intuit, up 26.4% and 18.5% respectively, on the back of reporting strong results. The broad strength in financial markets was attributed to company profit reports that were not as bad as feared, coupled with expectations that we are close to the end of interest rate hikes in this cycle. On both these fronts we are more sceptical.

Company profits are likely to be under pressure for some time owing to the weaker economic outlook and margin squeezes. Meanwhile, inflation is unlikely to dissipate as quickly as market participants expect. As a result, we will be using any strength in shares to reduce general exposure, whilst retaining confidence in the companies that we do own. We still prefer to own corporate bonds for their reasonable return outlook but here too we will be patient before adding to our positions. The road ahead will continue to be bumpy.

Actual investment mix[1]



[#] The actual cash held by the Fund is 12.96%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

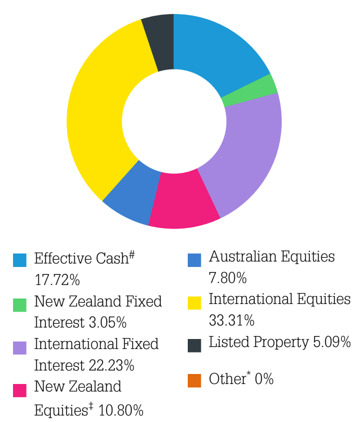
KiwiSaver Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund rose 5.2% in July as share and bond markets rose sharply and reversed most of July's market falls. The major New Zealand, Australian and global share market indices rising 5.8%, 5.7% and 8.0% respectively. Share markets rose as long-term interest rates fell and investors became less pessimistic. Long-term interest rates fell, despite further aggressive rate rises from central banks, as investors forecast that action from central banks would be successful in bringing down inflation allowing them to ease policy in 2023. The fall in long-term rates and increased investment optimism was positive for company bonds which performed strongly. Strong bond performance allowed the Fund to keep up with markets despite lower weighting in shares.

Key company performances in the month included Amazon (+27.1%), US hospital company HCA Healthcare (+26.4%), small business software provider Intuit (+18.5%) and US homebuilder DR Horton (+17.9%). Amazon rebounded as it delivered a better-than-expected result which showed continued strong growth in cloud computing and a recovery in retail performance. HCA rose following better-than-expected results and in particular signs that it was better able to manage wage price inflation which hurt its previous result. DR Horton rose following a very strong result which showed a 53% rise in profits versus the previous year. DR Horton is the United States largest home builder and has benefitted from the strong housing market in the United States. Looking forward rising mortgage rates in the US are creating a headwind for housing markets however we believe this is more than factored into DR Horton's valuation, which remains attractive.

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. Following the rise in share markets, last month's valuations in aggregate are around long-run averages but vary significantly by style with growth company valuations above average as investors remain optimistic this sector. This variation in valuations provides the opportunity for active management gains over time. 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 company bonds (fixed income) which we believe reflect the high levels of market uncertainty. 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 8.58%. 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 0.14% [‡] Includes unlisted equity holdings of 0.54%

[*] 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

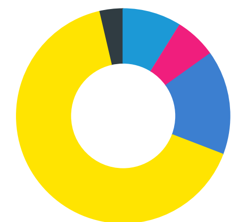
The Fund gained 6.7% in July, benefitting from a healthy rebound in global share markets.

In our international portfolio, growth companies outperformed with strong gains in our healthcare and technology holdings. The top contributor in July was US private hospital operator HCA Healthcare (+26.4%), after delivering better-than-expected second quarter earnings. HCA has been hampered by a shortage of nurses, the same issue we have been having locally. The good news is that labour headwinds are abating, hiring improved in the second quarter and reassuringly, management reiterated their 2022 guidance. Medical device company Boston Scientific (+10.1%) was another strong performer, with quarterly earnings showing an acceleration in organic revenue growth and the China business surprising to the upside. We added to our position. Other highlights included semiconductor company Analog Devices (+17.7%), US accounting software company Intuit (+18.5%), and tech giant Amazon (+27.1%). Underperformers in July were defensive companies such as pharmaceutical company Bristol-Myers Squibb (-4.2%) and US derivative exchange CME (-2.6%).

Closer to home, Australasian markets joined in the rally in July. Strong performers included Commonwealth Bank of Australia (+11.5%), real estate investment trust Goodman Group (+16.0%) and blue-chip biotechnology company CSL (+7.7%). In the NZ market, Mainfreight (+12.1%) and Contact Energy (+5.1%) also performed well. The major negative contributor was BHP Group (-6.2%) on concerns over the slowing Chinese property market and the impact that might have on iron ore demand.

Looking ahead, while the economic outlook does remain uncertain, inflation is peaking, and interest rate rises are likely to slow from here. We have been taking advantage of the recent volatility to add to some of our favoured companies.

Actual investment mix[1]



Effective Cash# 8.90%
International Equities 65.51%
New Zealand Equities 6.25%
Listed Property 3.59%
Australian Equities 15.68%
Other* 0.07%

The actual cash held by the Fund is 14.54%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

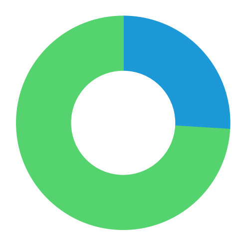
KiwiSaver Cash Fund

Portfolio Manager: Travis Murdoch & Katlyn Parker

The RBNZ Monetary Policy Review in July saw the OCR increased by 0.5 percentage points to 2.5 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. The market is focused on the upcoming August RBNZ meeting which is very much live for another 0.5 percentage points increase in the OCR. Our base case remains for higher interest rates from here albeit it remains to be seen if current market expectations will be realised if inflation moderates and/or growth slows.

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# 25.98%
Other* 0%
New Zealand Fixed Interest 74.02%

The actual cash held by the Fund is 25.98%. 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	2.48%	-4.37%	1.73%	3.69%	6.97%	1.9072	202.1 M
KiwiSaver Moderate Fund	3.00%	-3.39%	—	—	6.58%	1.1583	101.0 M
KiwiSaver Balanced Fund	4.17%	-1.83%	6.65%	7.98%	9.45%	2.9196	937.7 M
KiwiSaver Active Growth Fund^	5.21%	-3.17%	8.27%	9.97%	11.90%	4.9194	3,134.1 M
KiwiSaver Aggressive Fund	6.72%	-6.36%	10.59%	—	10.59%	1.3472	793.7 M
KiwiSaver Cash Fund	0.20%	1.12%	—	—	0.70%	1.0164	95.2 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)	5.77%	-8.08%	2.63%	9.28%	11%
S&P/ASX 200 Accumulation Index (AUD)	5.75%	-2.17%	4.27%	8.03%	7.1%
S&P/ASX 200 Accumulation Index (NZD)	6.37%	3.35%	6.49%	8.98%	7.2%
MSCI World Index (local currency)*	7.98%	-5.64%	10.28%	9.62%	8.86%
MSCI World Index (NZD)*	7.03%	1.11%	11.46%	12.77%	9.33%
S&P/NZX 90-Day Bank Bill Rate	0.21%	1.02%	0.8%	1.26%	1.61%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	2.55%	-7.77%	-0.55%	1.6%	2.02%
S&P/NZX NZ Government Bond Index	2.87%	-8.73%	-2.25%	1.11%	1.77%

*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 1.33%	Contact Energy 2.17%
NZLGFA 1.5% 2026 1.29%	NZGBI 2% 2025 1.19%	NZGBI 2% 2025 1.35%
NZLGFA 2.25% 2024 1.18%	NZLGFA 2.25% 2028 0.81%	HCA Holdings 1.26%
NZGBI 2% 2025 1.17%	HCA Holdings 0.79%	Boston Scientific 1.01%
NZLGFA 4.5% 2027 0.91%	NZLGFA 1.5% 2026 0.71%	Natwest 0.94%
Genesis 5.66% 2027 0.85%	NZLGFA 2.25% 2024 0.65%	Charter Hall Retail 0.91%
NZLGFA 2.25% 2031 0.85%	Boston Scientific 0.62%	Bristol-Myers Squibb 0.86%
CBA 2.552% 2027 0.82%	Natwest 0.62%	Microsoft 0.86%
Monash University 4.05% 2029 0.82%	Goodman 0.60%	Elevance Health 0.85%
John Deere 1.75% 2024 0.69%	Genesis 5.66% 2027 0.59%	Intuit 0.85%

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 3.81%	Microsoft 2.64%	Westpac 45 Day WND 16.36%
Shell 2.44%	Boston Scientific 2.61%	Auckland Airport CD 2022 5.03%
JPMorgan 2.41%	Shell 2.42%	ASB 1.99% 2022 4.06%
CRH 2.21%	Elevance Health 2.22%	Kiwibank 2.7% 2022 3.40%
Virgin Money 2.11%	Alphabet 2.11%	Heartland CD 2022 3.37%
HCA Holdings 1.90%	Aon 2.07%	Auckland Airport CD 2022 3.36%
Microsoft 1.86%	Bristol-Myers Squibb 2.02%	SBS CD 2022 3.02%
Natwest 1.82%	Analog Devices 1.83%	Port of Tauranga CD 2022 2.69%
NatWest 5.125% Perpetual 1.78%	Danaher 1.68%	Contact CD 2022 2.68%
Boston Scientific 1.65%	Intuit 1.63%	Contact CD 2022 2.68%

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 $16.2 million invested in the Milford KiwiSaver Plan as at the end of July 2022.

Stephanie Batchelor
Senior Investment Analyst

Investment Highlight: Intuit

The 'Xero' of the US

Intuit is the dominant player in accounting and finance software for small businesses and consumers in the United States. The success of this $114bn company can in part be attributed to our very own home-grown Xero (despite Xero being less than 1/10th the size).

Intuit was founded in 1983 and shook up the financial software world by launching Quicken, which developed over time into a comprehensive desktop solution for accountants. However, in the early 2000's, the migration of data to the cloud and the rapid rise of smartphones were changing how small business owners wanted to use technology. Xero spotted this "once-in-a-lifetime land grab" opportunity to get data off PCs and into the cloud and launched its cloud accounting software in 2006. To avoid being disrupted, Intuit was forced to reinvent itself and become a cloud software player too.

Fast forward to today, Intuit has established itself as the clear leader in each of its business segments:

QuickBooks

- The flagship product of Intuit: a small business and self-employed accounting software available via desktop or cloud.
- Intuit has a roughly 80% share of US Small and Medium Businesses (SMBs) that use accounting software, but a long runway for growth remains, supported by low penetration of accounting software use among SMBs. Intuit has just 8m customers, out of roughly 63m SMB and self-employed customers in the US (as well as a global opportunity).

TurboTax

- Tax preparation software to assist customers filing federal and state income tax returns.
- The US tax industry is split into DIY (46%) and Assisted e.g. professionals and tax stores (54%). TurboTax has a leading market share in the DIY segment (roughly 66%) and is beginning to make headway in the Assisted category via its 'Live' offering.

Credit Karma

- The leading personalised pre-approved loan platform, connecting 110m customers to financial institutions offering credit cards, loans, and insurance.

Across these segments, Intuit is realising synergies and becoming more of an ecosystem where products and data interact to provide additional benefits to both businesses and consumers.

Laser Focused on Solving Customer's Largest Pain Points

Intuit CEO, Sasan Goodarzi, believes that "in order to win, we must be far more customer-obsessed." Customer-driven innovation requires every Intuit employee to look for new and better ways to improve customers' lives – the focus is always on the problem, not the solution. In turn, this helps to increase product 'stickiness', reduce churn, and drive up the average price per subscriber as additional services (payroll, payment processing etc.) are added to its suite.

For example, two thirds of small businesses say their biggest challenge is attracting customers. In response, Intuit acquired MailChimp which provides marketing solutions for SMBs to attract and retain customers. This was the missing link for Intuit to become a one-stop shop, enabling customers to run their entire business on Intuit's platform.

Recession Resilience?

Intuit believes it should remain well placed in a softer macroeconomic environment:

Accounting software is mission critical for small business. The pandemic also taught businesses the importance of digitalisation to remain nimble and competitive.

- Benjamin Franklin once said, "in this world, nothing is certain except death and taxes", leaving Intuit well-placed to deliver on the second part of that statement with its TurboTax product.
- Credit Karma is also well positioned because in tougher economic times, demand for credit increases as consumers look to bridge the gap between income and spending. In addition, financial institutions tend to look for higher quality credit customers, which Credit Karma's extensive dataset can help provide.

Intuit shares have de-rated this year on the back of higher market interest rates and the rotation out of growth stocks, whereas the underlying fundamentals of the business remain strong. We believe the duration of Intuit's growth is underestimated by the market, and we expect Intuit's shares to appreciate over time as management continue to execute on the sizeable opportunity ahead.

Let's start the conversation...

Kirsten Bennett
Financial Adviser

Have you ever asked yourself how much money you'll need in retirement? New Zealand Superannuation alone may not provide a comfortable or even an adequate retirement income. So, it's important for everyone to do what they can now to put themselves in a better position for the future.

But saving for retirement isn't easy and research from Melville Jessup Weaver[1] shows the situation is even tougher for women, who arrive at retirement with on average 20% less in their KiwiSaver account. Two of the key reasons are:

1. **Women earn less –** Stats NZ data shows that women's median hourly earnings are 9.1% lower than men's.[2]
2. **Women take longer out of the workforce –** Females generally spend more time out of paid employment to start and raise a family or look after elderly relatives. Additionally, women make up the majority of the part time workforce in New Zealand according to the Financial Services Council.

KiwiSaver is one of the best ways to grow your savings and provide for your future. Here are a few ideas to help empower the women in your life to make the most of it:

Have confidence to ask questions about KiwiSaver – 22% of women have KiwiSaver and don't contribute to it (compared to 16% of men). Women are also less likely to understand the value of risk in the context of investing.[3] A good place to start is by asking questions and understanding that risk is not always a bad word.

Maximise your KiwiSaver contributions – Stopping contributions whilst taking time away from work to start or raise a family can have a big impact on your KiwiSaver balance over the long term. Starting good habits now such as increasing your KiwiSaver contribution rate each time you get a pay rise will help. You'll still receive more in your hand at the end of each pay, but you'll also be putting away funds for your future.

If you can afford it, a weekly contribution of $21 while on maternity or parental leave will ensure you get the full $521 Government Contribution added to your account each year, but if you are in a financial position to contribute more than the minimum then this will benefit you later at retirement

Seek out financial advice – Financial advice is not just for the wealthy. It's becoming more accessible than ever, whether that's in-person advice or through digital financial advice. Getting advice can give you more confidence and peace of mind by helping you set the right investment goals and the right plan to achieve them.

Start the conversation early - Our schools are introducing financial literacy into the learning curriculum at years 11, 12 and 13. So let's also have conversations with our children about money and let's share the knowledge with the next generation.

In life, relationships may come and go so we cannot rely on our partners to look after our financial decisions. Women need to take control of these decisions for themselves. Taking control does not need to be hard, all it takes is a few minutes a couple of times a year to check in on your KiwiSaver. Having a plan, speaking with a financial adviser and staying the course if nothing has changed will help you get on track to achieve your goals.

1. Melville Jessup Weaver. KiwiSaver demographic Study. March 2022.
2. Stats NZ. Gender Pay Gap Unchanged. 18 August 2021.
3. NZ Retirement Commission. International Women's Day: Mind the gender financial capability gap. March 2022.