Milford Investment Funds
Monthly Review January 2023

The land of opportunity

Sticking to the script of 2022, December offered up surprises to keep investors on their toes right up to the end of the year. Whilst share markets were weaker, Milford's diversified funds held on to the majority of their gains of the past few months.

The story of 2022 was the determination of central banks to fight inflation by hiking interest rates significantly. In December, given the large rise in interest rates thus far, coupled with evidence that inflation is indeed slowing, investors had expected central banks to let up on their aggressive hiking intentions. Indeed, whilst the pace of interest rate hikes in the US, Europe and UK did slow to 0.5% increases, central banks surprised markets by indicating that interest rates will have to rise further and stay there for longer.

Whilst more aggressive central bank action doused Christmas spirit in the share markets, we expect investors to start looking beyond central bank actions as we move into 2023. In coming months we will find out how much higher interest rates are already impacting the economy. Furthermore, we will learn how company profits are faring in an environment where wage costs are elevated and companies' ability to raise prices is becoming tougher.

The turn of the year usually elicits contemplation about the future. However, the future continues to look highly uncertain with a wide range of outcomes that would render any predictions quickly obsolete. Widely held expectations of recession and weaker profits seem logical to us, but we continue to be surprised at how resilient the global economy has been to the shocks of the past year. With risks skewed to the downside, our defensive investment positions remain appropriate. In the past month we have reduced our exposure to the NZ dollar; recent strength is at odds with a weaker relative outlook for our domestic economy.

Higher interest rates will help deliver stronger returns from our cash and bond investments going forward. Although the outlook for shares is more mixed, as active managers we relish the challenge of finding those diamonds in the rough that often emerge in times like these.

Milford Asset Management
Level 28, 48 Shortland Street, Auckland, 1010
Phone: 0800 662 345
Email: Info@milfordasset.com
milfordasset.com

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Conservative Fund

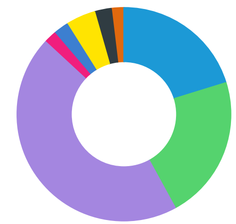
Portfolio Manager: Mark Riggall

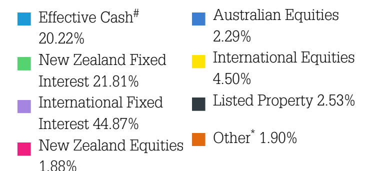
The Fund returned -0.1% in December, bringing the one year return to -4.7%. The Fund's majority exposure to cash and bonds (close to 90% of investments) is providing positive incremental returns as well as insulating the Fund from share markets that were generally weaker in December. This meant that the Fund preserved much of the modest gains of the past six months.

Central banks around the world slowed the pace of rate hikes in December, but surprised markets with their message of higher interest rates for longer. This backdrop of higher interest rates will be a headwind to the economy and financial markets for the foreseeable future. But higher rates also deliver much better returns on cash and bond investments which means the outlook for returns is improving despite the forecasts for recession in NZ and abroad.

For the lower risk Fund, this means maintaining a reduced exposure to risky shares whilst also looking for opportunities to profit from repositioning the Fund. For example, the past few months have seen a strong run up in the NZ dollar. We think this is at odds with the relatively weaker outlook for the NZ economy and so the Fund has been increasing its foreign currency exposure accordingly. Whatever surprises 2023 has in store, we continue to look for profitable investments to help deliver strong, long-term returns.

Actual investment mix[1]





The actual cash held by the Fund is 9.43%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Diversified Income Fund

Portfolio Manager: Paul Morris

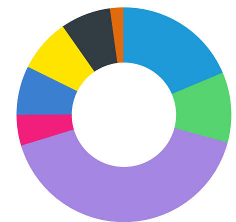
Irrespective of broad-based weakness across bond and share markets, the Fund finished the month close to flat (0.2%). Unfortunately, the one year return remains negative at -2.8%. However, given the historically large fall in bond and share prices over the past year, the Fund's cautious positioning did provide a significant cushion for returns. Looking forward, we reiterate that the painful reset lower in market valuations we have traversed means the medium term return outlook is more favourable. That said, near term our expectation remains for choppy markets to continue until we get further certainty on the evolution of inflation, where market interest rates will therefore settle, and what impact this will have on economic growth and company earnings.

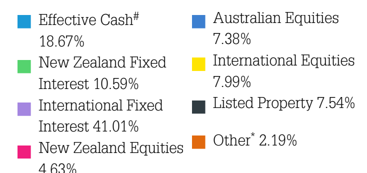
December saw market interest rates reset higher. What had been building hope for less aggressive monetary policy tightening was somewhat quashed as myriad central banks reiterated their hawkish intentions. While evidence continues to build that inflation may be peaking, employment remains tight and risks are that inflation may prove stubbornly elevated. The Fund's lower than normal exposure to market interest rates did limit the negative return impact, and ongoing outperformance of its corporate bonds relative to government bonds helped (the latter more directly sensitive to the path of policy cash rates).

Most of the share markets into which the Fund invests were weaker over the month on higher market interest rates, and on concern earnings will fall as tighter monetary policy impacts economic growth. A notable exception was NZ electricity companies which were stronger, including Contact Energy (the Fund's largest share exposure) which was up 2.9%. The Fund also benefitted from a strong showing from Spark (+4.9%) and its UK bank exposures (e.g. Virgin Money +7.9%) which have benefitted from higher interest rates. Higher market interest rates weighed on income shares, albeit the Fund has a much lower allocation here than historically. Global and Australasian property was weak (e.g. Goodman Group -8.4%), while global infrastructure share prices were also under pressure (the global infrastructure index falling more than 3%).

Looking ahead, we will retain the Fund's more conservative positioning until we get some certainty that the foundations are in place for a sustained recovery in risk appetite. This means less shares than would be historically normal until we get confidence that (i) inflation is falling sufficiently for central bank policy rates to peak and (ii) share valuations have adjusted to a likely lower earnings profile as economic growth slows. Instead, we will hold more cash where the return is now more reasonable. We will also look to continue to deploy opportunistically into corporate bonds, with a focus on shorter-dated bonds, where we believe many offer returns which look attractive versus shares.

We continue to repeat recent messaging that the outlook for medium term returns has improved, but with the caveat that near term volatility is likely to remain elevated. Active management and our ongoing cautious positioning should enable us to best navigate these risks.





The actual cash held by the Fund is 3.79%. 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.

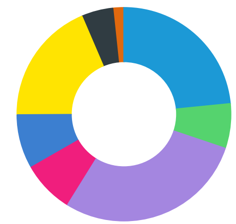
Balanced Fund
Portfolio Manager: Mark Riggall

The Fund returned -0.6% in December, bringing the one year return to -6.1%. Although share markets were generally weaker in December, the Fund's defensive positions meant that much of the gains of the past six months were preserved.

Central banks around the world slowed the pace of rate hikes in December, but surprised markets with their message of higher interest rates for longer. This backdrop of higher interest rates will be a headwind to the economy and financial markets for the foreseeable future. But higher rates also deliver much better returns on cash and bond investments, which means the outlook for returns is improving despite the forecasts for recession in NZ and abroad.

Ongoing uncertainty regarding the outlook demands a flexible approach, and market volatility provides opportunities to reposition the Fund. For example, the past few months have seen a strong run up in the NZ dollar. We think this is at odds with the relatively weaker outlook for the NZ economy and so the Fund has been increasing its foreign currency exposure accordingly. The Fund also further reduced exposure to shares, taking advantage of market strength in November. This helped cushion against the falls seen into year end. Whatever surprises 2023 has in store, we continue to look for profitable investments to help deliver strong, long-term returns.

Actual investment mix[1]



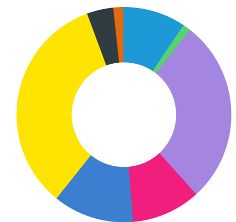
The actual cash held by the Fund is 6.54%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Active Growth Fund
Portfolio Manager: Jonathan Windust

The Fund fell 1.3% during December as a result of falls in major share market indices; New Zealand (-0.6%), Australia (-3.2%) and global (-5.1%). Share markets fell in response to further rate hikes from central banks, with rate rises of 0.5% in the US, UK and Europe. Central banks continued to emphasise their resolve to reduce inflation. The Fund performed considerably better than most market indices due to a more cautious investment stance and strong company selection.

Key positive company performers during the month included Contact Energy (+2.9%), EBOS (+7.2%), Boston Scientific (+2.2%) and AGCO (+4.5%). AGCO is a manufacturer of agricultural equipment including Massey Fergusson and Fendt tractors and sprayers. AGCO rose following an investor update where it provided a positive earnings outlook for 2023 and strong medium-term growth targets. Negative performers for the month were growth and technology companies such as Amazon (-13.0%) and Google (-12.6%), as investors generally reduced growth expectations. We believe whilst facing short-term headwinds, these companies have attractive long-term growth prospects.

Looking forward, the short-term outlook for shares remains highly uncertain, with high inflation and high interest rates likely to slow economic growth and company earnings prospects in 2023. However, following market falls, slower growth is now factored into the valuations of many companies. Higher interest rates also provide a better return outlook for cash and fixed income investments. Given the uncertain environment, the Fund retains a lower weight to shares and higher weight to company bonds (fixed income) than normal. We believe select company bonds offer attractive returns with relatively low risk. Within shares, the Milford team remains active to isolate attractive company investments which have strong medium-term risk and return prospects.



The actual cash held by the Fund is 7.52%. 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 0.50%
* 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.

Australian Absolute Growth Fund

Portfolio Manager: William Curtayne & Wayne Gentle

The Fund ended 2022 with a -1.5% return for the year. While disappointing to generate a negative return, the Fund largely delivered on our ambition to minimise capital losses in a difficult year. We invested defensively over the year with some good profits made in resources and energy and some key stock picks such as Neuren Pharmaceuticals. Our large positions in healthcare and staples largely held their value while we missed out on a good opportunity to make money on the banks' rally in the third quarter having sold our positions earlier in the year. We stand by our cautious view on Australian banks into 2023.

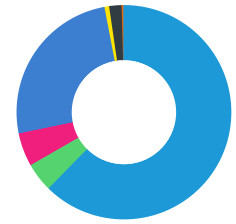
For December, the Fund returned -0.2% while the ASX 200 index fell 3.2%. Markets consolidated weaker again, after a strong couple of months, on the back of cooler inflation data.

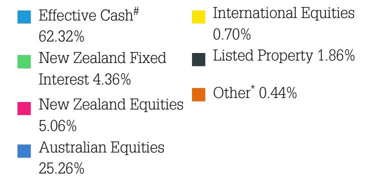
Our strongest performers over the month were New Zealand founded businesses EBOS (+7.2%) and Smartpay (+4.5%). Key laggard over the month was ResMed (-7.4%) which we consider a high-quality company with defensive earnings and trading at a reasonable valuation.

A couple of our larger positions are currently under takeover offers, OZ minerals and Origin Energy. OZ Minerals is a low-risk takeover after the company agreed a scheme of implementation with BHP in December, meaning we will get a small but low-risk return to the completion date in March/April. Origin is a position we owned prior to it receiving a takeover offer of $9 per share. It is currently trading at a substantial discount due to uncertainty around whether the takeover will proceed. We see the risk/reward of this as attractive, given the possibility of completion, and, in any event, believe the company is a good long-term position if the takeover does not proceed.

The drivers of markets in 2022 were inflation and interest rates. We believe the main driver in 2023 will be recession fears and profits. Whether or not a recession occurs, we anticipate lower profits in 2023 in Australia and globally due to slowing revenues and higher operating and debt costs. Current equity valuations remain high, considering this profit outlook, leading us to maintain our cautious positioning and weight towards companies with non-cyclical earnings. As the earnings weakness progresses, we will look to establish longer term positions in quality businesses at attractive valuations.

Actual investment mix[1]





The actual cash held by the Fund is 26.04%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Aggressive Fund

Portfolio Manager: Stephen Johnston

The Fund fell 3.7% in December. This closed out a difficult year for global share markets which have been impacted by: aggressive actions by central banks which have been hiking interest rates to combat inflation; the war in Ukraine; and the ongoing economic slowdown in China.

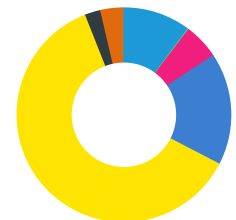
In our international portfolio, it was a mixed bag in December, with growth sectors such as technology and consumer discretionary underperforming more defensive sectors like consumer staples and healthcare.

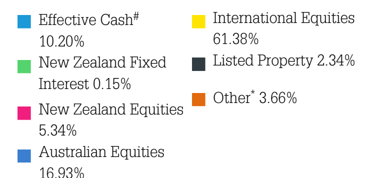
The top contributor in December was the world's largest Coca-Cola bottler, Coca-Cola Europacific Partners (+4.2%). We think the company is well positioned to sustain the improvement in organic revenue growth in 2023 and we expect improved execution at its recently acquired local subsidiary Coca-Cola Amatil. US medical device company, Boston scientific (+2.2%) continued its strong run. Medical procedure volumes at US hospitals have now returned to pre-pandemic levels in most end markets, despite a Covid-19 resurgence. UK bank NatWest (+1.3%), also contributed positively, wrapping up a strong 2022 for the company.

Underperformers in December included two of our stronger 2022 performers, US pharmaceutical company Bristol Myers Squibb (-10.4%) and WillScot Mobile Mini (-6.3%).

Closer to home, iron ore miner Rio Tinto (+6.2%) continued to bounce on optimism of a recovery in Chinese demand. In the NZ market, defensive names Contact Energy (+2.9%) and EBOS (+7.2%) contributed positively. Profit taking impacted Australian miner IGO (-12.6%) in December.

Looking ahead, we expect economic growth to slow impacting company earnings. The good news is inflation has likely peaked and central bank hikes are likely to slow. We continue to find good opportunities, that are geared to our favourite investment themes.





The actual cash held by the Fund is 12.18%. 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.

Trans-Tasman Bond Fund

Portfolio Manager: Paul Morris

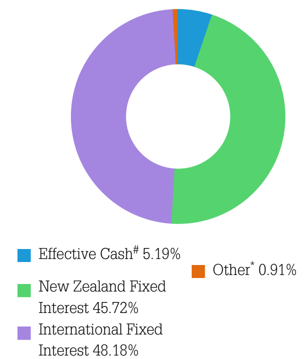
December saw global and Australasian market interest rates rise, culminating in a small loss of 0.4% for the Fund over the month. Primarily due to having somewhat limited the Fund's interest rate exposure (notably in Australian dollars), this was a 0.3% better return than its benchmark. Corporate bonds continued their recent outperformance over government bonds. The Fund's slightly larger than benchmark exposure to credit spreads (the extra yield relative to government bonds) also contributed to the Fund's outperformance.

Global evidence continues to build that inflation is peaking, but employment remains tight and risks therefore are that inflation may remain stubbornly elevated. Hope for less aggressive global monetary policy tightening was also quashed in December as myriad central banks reiterated hawkish intentions. This pushed bond prices lower and market interest rates higher. The Bank of Japan, a perennial advocate of loose monetary policy, even increased the target at which it plans to keep 10-year Japanese government bond yields. The latter further weighed on Australian bonds given many Japanese investors have bought Australian bonds as an alternative to the low bond returns available domestically in Japan.

During the month we added back some interest rate exposure as rates rose in both Australian and NZ dollars. While this aggregate rate exposure is still less than benchmark, the difference is now smaller but remains focused in Australian dollars. We continue to look for opportunities to add exposure to Australian corporate bond credit spreads, for example, in December we participated in a new issue from Suncorp-Metway (an Australian bank). We have, however, looked to trim exposure to the "Big 4" Australian banks as these bonds have performed well. We will look to rebuild this exposure via what we expect to be cheaper new issuance in January.

Last month we outlined that bond valuations might be prone to some near-term weakness. To an extent this has played out and we now believe valuations are closer to fair value. That said, the inflation outlook remains uncertain. For now, we will retain what has become a closer to benchmark exposure to credit spreads and interest rates but will remain active in managing the Fund through what are likely to be near term choppy markets. Looking ahead medium term, we think that valuations across Australasian bond markets are attractive. Even if market interest rates were to increase further, the income from prevailing bond yields should provide a significant cushion for returns.

Actual investment mix[1]



Effective Cash# 5.19%
Other* 0.91%
New Zealand Fixed Interest 45.72%
International Fixed Interest 48.18%

The actual cash held by the Fund is 4.80%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

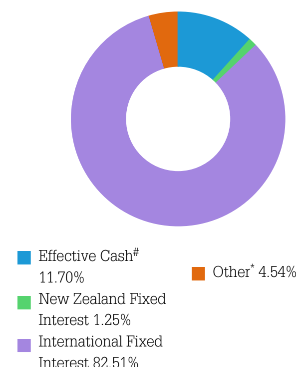
Global Corporate Bond Fund

Portfolio Manager: Paul Morris

The Fund was close to flat over the month of December. Evidence continues to build that inflation has peaked but tight labour markets mean the risk for stubbornly elevated inflation remains. Hope for less aggressive global monetary policy tightening also diminished in December as myriad central banks reiterated hawkish intentions. This meant global government bonds were generally weaker, but price falls were less pronounced in the corporate bonds to which the Fund is primarily exposed. The Fund further benefitted from having retained a lower exposure to market interest rates which underpinned its 0.4% outperformance relative to benchmark. This rate exposure was, however, increased over the month as rates rose. It is now only moderately less than that of its benchmark, as we think rates are closer to fair value.

When measured on an absolute basis (but to a lesser extent versus government bonds) we continue to think that medium term corporate bond yields are looking attractive, especially shorter-dated bonds. The yields available provide a significant buffer from a move higher in market interest rates or a widening in credit spreads. That said, and considering the further extension of the tightening in credit spreads, we think credit spreads could be prone for some near term weakness/widening, especially as January is a busy month for new issue supply. We also remain wary as to how credit spreads may perform in a world where central banks continue to tighten policy and reverse quantitative easing.

The Fund therefore retains a lower exposure to credit spreads (the extra yield relative to government bonds). This was a drag on performance relative to benchmark in December as spreads generally tightened, however, the extent was minimised by strong performance of its subordinated bank bonds and its Australian corporate bonds. We retain this below neutral exposure to credit spreads and will also keep cash available to participate in what we believe will be cheaper new issues in January. Nonetheless, in December we did add subordinated bonds of NatWest Group (UK bank) and Vodafone (European telco), in addition to Santos (Australian oil and gas) and global packaging company Ardagh Metal Packaging.



Effective Cash# 11.70%
Other* 4.54%
New Zealand Fixed Interest 1.25%
International Fixed Interest 82.51%

The actual cash held by the Fund is 3.64%. 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.

Cash Fund

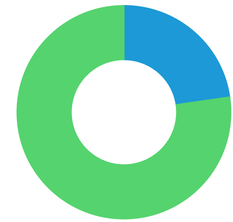
Portfolio Manager: Katlyn Parker

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 larger Official Cash Rate (OCR) increases in the near term. The market is currently attaching a significant probability of another 0.75 percentage point OCR increase at the next Reserve Bank of New Zealand meeting in February, when its Monetary Policy Statement (MPS) will be released.

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 could be higher than what may 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.

Actual investment mix[1]



Effective Cash# 22.72%
Other* 0%
New Zealand Fixed Interest 77.28%

The actual cash held by the Fund is 22.72%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Global Equity Fund

Portfolio Manager: Felix Fok & Alex Whight

The Fund fell 4.5% in December. Over four years, the Fund is up 50.6% (cumulative) compared to the benchmark which is up 50.9%.

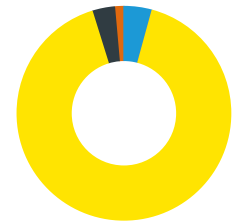
Positive contributors included beauty expert Estee Lauder (+5.2%). Estee's China business was significantly impacted in 2022 by lockdowns. This turned for the better in recent months, with China deciding to drop its zero-Covid approach, and global travel likely to recover further in 2023.

Bank of Ireland (+14.0%), a new portfolio addition, provided a positive update to investors. The bank appears well-positioned to take market share following the exit of foreign competition from the Irish market.

Decliners included discounter retailer Costco (-15.3%). November sales came in slightly below forecasts as some US consumer weakness is filtering through to higher income cohorts. The Fund will monitor for sustained weakness, but the thesis remains that Costco offers substantial value to the consumer.

Alphabet (-12.6%), the parent of Google, was down on general weakness given the recession risk. Advertising spending is tied to economic activity, and the market debate is whether Alphabet can cut costs to offset revenue softness. This misses the bigger picture that Alphabet has very healthy financials and continues to push the frontier in data analytics and computing.

The Fund is actively upgrading the portfolio with attractive opportunities across investment styles, balancing quality, growth and value.



Effective Cash# 4.26%
Listed Property 3.40%
Other* 1.41%
International Equities 90.93%

The actual cash held by the Fund is 4.26%. 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.

Trans-Tasman Equity Fund

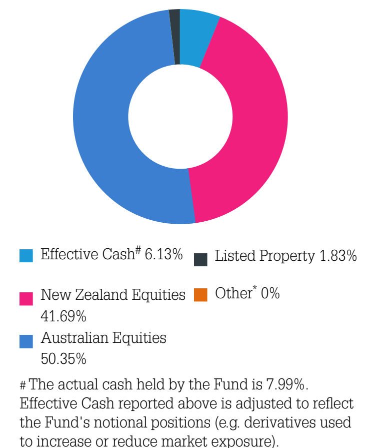
Portfolio Manager: Sam Trethewey

The Fund fell 1.5% in December compared to a 0.6% decline in the NZX 50 index and a 3.2% decline in the ASX 200. Global equity markets were hit over December by investor concerns associated with the trajectory of the US economy, China reopening and a change in policy stance by the Bank of Japan. While the NZX was largely immune, the ASX has greater exposure to these concerns and followed the lead lower.

Fund performance was led by EBOS Group (7.2%) and a2 Milk (+11.0%). EBOS has been a long-term position for the Fund and continues to be sought after by investors for its defensive earnings stream and proven management team. a2 Milk performed strongly over the second half of 2022, as what was a very unloved stock continued to show signs that prior issues were being resolved via the management team's turnaround plan. In addition, the end of zero-Covid policies in China should positively impact a2 with the return of restriction-free shopping and higher consumer confidence which should help stem the declining Chinese birth rate. Our minimal holding in Ryman Healthcare (-18.6%) also served the Fund well. Ryman continues to face cashflow uncertainty given the weak local housing market and investors are questioning whether the company needs to raise additional equity. Over the month the Fund added to its position in Origin Energy on share price weakness, and reduced EBOS and iron ore miner BHP into strength.

Looking ahead we expect the key themes of 2022, inflation and central bank policy, to continue. We also expect company earnings to become increasingly in focus. Earnings have been resilient so far, but cracks started to appear late last year and we remain cautious about what is to come. The most recent evidence is a poor trading update from local retailer the Warehouse Group in late December. The Fund is positioned defensively at present. We are invested in companies like EBOS where we have a high degree of confidence in earnings and we can see stock-specific reasons why it should outperform the broader market. We hold limited exposure to companies with a high degree of exposure to the local economy or interest rate sensitivity. We intend to remain cautious until earnings pressure subsides, and monetary policy becomes less restrictive. We will continue to work hard to identify new opportunities and position the Fund accordingly.

Actual investment mix[1]



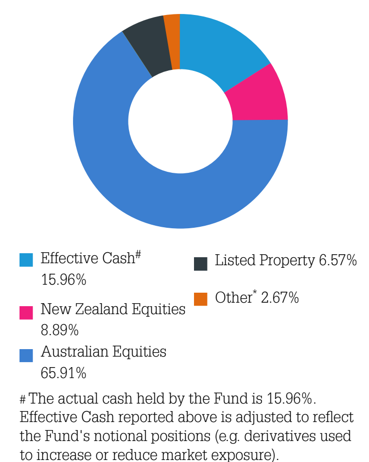
Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins

While 2022 was a weak year for Australian small cap equities, markets generally held up well in the second half of the year. The Fund returned -2.3% for the month, ahead of the S&P/ASX Small Ordinaries which fell 3.6%. Gold was one of the few sectors which collectively made a positive contribution for the month. Evolution Mining (+10.8%), and Northern Star (+2.9%) were two portfolio companies that performed well. Pharmaceutical distributor EBOS Group (+7.2%) continued its strong form .

Smartpay's (+4.5%) momentum continued following the release of its first half results last month. Laggards included independent investment platform Netwealth (-12.0%) and sleep apnoea global leader ResMed (-7.4%). We consider both high quality companies trading at reasonable valuations and able to grow earnings outside of the economic cycle. We remain conservatively positioned as we enter the new year. While the property market has responded quickly to the RBA's monetary tightening, the impact on the broader economy will take longer.

As this equity weakness continues, we will look to establish longer term buy and hold opportunities in quality businesses at attractive valuations. We have selectively started this process given our elevated cash position, however only in moderate size.



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Fund Performance

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	Since Fund inception (p.a.)	Unit price $	Fund size $
Multi-Asset Funds							
Conservative Fund*	-0.13%	-4.71%	0.94%	2.91%	4.32%	1.1562	572.0 M
Diversified Income Fund*	0.17%	-2.80%	2.55%	4.95%	9.31%	1.8205	2,776.3 M
Balanced Fund	-0.62%	-6.05%	4.98%	6.42%	8.89%	2.8376	1,599.8 M
Active Growth Fund	-1.28%	-8.30%	6.18%	7.86%	11.40%	4.8105	2,692.7 M
Australian Absolute Growth Fund	-0.15%	-1.50%	8.35%	—	8.27%	1.4596	578.8 M
Aggressive Fund	-3.66%	-13.23%	—	—	-3.68%	.9421	968.8 M
Cash and Fixed Income Funds							
Trans-Tasman Bond Fund*^	-0.36%	-5.77%	-0.92%	1.32%	3.35%	1.0795	1,202.2 M
Global Corporate Bond Fund*^	0.11%	-8.69%	-1.30%	0.87%	1.87%	.9770	414.8 M
Cash Fund	0.35%	2.35%	1.16%	—	1.31%	1.0510	450.1 M
Equity Funds							
Global Equity Fund†	-4.54%	-19.66%	6.32%	7.24%	7.92%	2.0715	368.1 M
Trans-Tasman Equity Fund*	-1.51%	-9.94%	5.52%	8.77%	10.57%	3.6540	652.8 M
Dynamic Fund#	-2.26%	-13.53%	7.77%	8.96%	11.48%	2.6960	642.5 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: Active Growth Fund: 1 October 2007, Trans-Tasman Equity Fund: 1 October 2007, Balanced Fund: 1 April 2010, Diversified Income Fund: 1 April 2010, Global Equity Fund: 12 April 2013, Dynamic Fund: 1 October 2013, Trans-Tasman Bond Fund: 2 December 2013, Conservative Fund: 1 September 2015, Global Corporate Bond Fund: 1 February 2017, Australian Absolute Growth Fund: 1 March 2018, Cash Fund: 1 March 2019, Aggressive Fund: 21 June 2021.
*Performance figures include the reinvestment of the Funds' distribution.
^Returns prior to 1 March 2018 are from when the Fund was previously offered to wholesale investors only and have been adjusted for current Fund charges.
†Returns prior to 1 October 2018 are from when the Fund was structured to achieve an absolute return.
#Closed to new investment.

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)	-0.61%	-11.25%	0.64%	7.31%	9.9%
S&P/ASX 200 Accumulation Index (AUD)	-3.21%	-1.08%	5.55%	7.11%	8.43%
S&P/ASX 200 Accumulation Index (NZD)	-3.73%	-0.14%	6.57%	6.57%	8.55%
MSCI World Index (local currency)*	-5.08%	-16.04%	5.76%	6.89%	8.78%
MSCI World Index (NZD)*	-5.97%	-11.39%	7.23%	8.66%	9.76%
S&P/NZX 90-Day Bank Bill Rate	0.35%	2.23%	1.09%	1.38%	1.63%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	-1.18%	-11.22%	-2.59%	0.36%	1.24%
S&P/NZX NZ Government Bond Index	-1.49%	-9.14%	-3.5%	-0.27%	1.06%

*With net dividends reinvested

Upcoming Distributions

Fund	Target	Payment Date
Conservative Fund	0.5 cents (Quarterly)	19/01/2023
Diversified Income Fund	1.1 cents (Quarterly)	16/02/2023
Trans-Tasman Bond Fund	0.45 cents (Quarterly)	16/03/2023
Global Corporate Bond Fund	0.45 cents (Quarterly)	16/03/2023
Trans-Tasman Equity Fund	1.5 cents (Biannually)	16/03/2023

Top Security Holdings (as a percentage of the Fund's Net Asset Value)

Multi-Asset Funds

Conservative Fund	Diversified Income Fund	Balanced Fund
NZLGFA 1.5% 2026 1.22%	NZGBI 2% 2025 3.24%	Contact Energy 2.19%
NZGBI 2% 2025 1.22%	Contact Energy 2.15%	NZGBI 2% 2025 1.34%
Housing NZ 3.42% 2028 1.19%	Origin Energy 1.67%	HCA Holdings 1.33%
NZLGFA 1.5% 2029 1.11%	Telstra 1.62%	Origin Energy 1.31%
GTA Finance 2.2% 2027 1.04%	Getlink 1.53%	Shell 1.30%
CBA 5.398% 2027 0.94%	Ameren 1.46%	Elevance Health 1.26%
NZLGFA 4.5% 2027 0.85%	Goodman 1.40%	Telstra 1.12%
Contact Energy 0.81%	Spark 1.26%	Boston Scientific 1.02%
NAB 4.95% 2027 0.78%	Transurban 1.11%	Natwest 1.01%
NZLGFA 2.25% 2031 0.77%	Scentre Group 5.125% 2080 1.04%	Santos 1.01%

Active Growth Fund	Australian Absolute Growth Fund	Aggressive Fund
Contact Energy 3.55%	OZ Minerals 5.05%	Boston Scientific 2.58%
Shell 2.37%	CSL 4.92%	Coca-Cola 2.38%
CRH 1.94%	Telstra 4.76%	Elevance Health 2.33%
Natwest 1.92%	Ampol 4.65%	Shell 2.20%
NatWest 5.125% Perpetual 1.85%	Origin Energy 4.60%	HCA Holdings 2.11%
HCA Holdings 1.80%	Santos 4.60%	Willscot Mobile Mini Holdings 2.02%
Boston Scientific 1.78%	Woolworths 3.86%	Microsoft 1.88%
Santos 1.61%	Coles 3.31%	Aon 1.78%
JPMorgan 1.59%	Computershare 3.05%	Charles Schwab 1.65%
Charter Hall Retail 1.40%	Contact Energy 2.88%	Bristol-Myers Squibb 1.55%

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).

Top Security Holdings (as a percentage of the Fund's Net Asset Value)

Cash and Fixed Income Funds

Trans-Tasman Bond Fund	Global Corporate Bond Fund	Cash Fund
NZLGFA 1.5% 2026 2.96%	Becton Dickinson Euro 0.334% 2028 2.58%	Westpac 45 Day WND 14.29%
Housing NZ 3.42% 2028 2.87%	John Deere 1.75% 2024 2.47%	Auckland Airport CP 2023 4.43%
NZLGFA 1.5% 2029 2.67%	CSL 3.85% 2027 2.20%	Auckland Airport CP 2023 3.96%
GTA Finance 2.2% 2027 2.43%	JPMorgan 1.578% 2027 2.20%	Heartland CP 2023 3.33%
NZLGFA 4.5% 2027 2.04%	NatWest 7.416% 2033 2.01%	Port of Tauranga CP 2023 3.30%
NAB 4.95% 2027 1.89%	HCA 5.875% 2026 1.96%	Mercury CP 2023 3.10%
NZLGFA 2.25% 2031 1.86%	Vodafone 3.75% 2034 1.92%	SBS CP 2023 2.88%
Monash University 4.05% 2029 1.76%	CBA 5.398% 2027 1.92%	Fonterra CP 2023 2.65%
ANZ Float 2027 1.63%	NBS 6.178% 2027 1.85%	Fonterra CP 2023 2.65%
CBA 5.398% 2027 1.59%	John Deere 4.55% 2024 1.83%	Fonterra CP 2023 2.64%

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).

Equity Funds

Global Equity Fund	Trans-Tasman Equity Fund	Dynamic Fund
Elevance Health 3.95%	CSL 6.37%	Viva Energy Group 4.75%
HCA Holdings 3.36%	Fisher & Paykel 5.30%	IPH 3.57%
Microsoft 3.25%	BHP 5.00%	Contact Energy 3.51%
Boston Scientific 3.09%	Spark 4.42%	Origin Energy 3.15%
Analog Devices 3.02%	Infratil 4.40%	Resmed 3.00%
Willscot Mobile Mini Holdings 2.98%	CBA 3.98%	Collins Foods 2.86%
Ametek 2.66%	EBOS Group 3.53%	Waypoint REIT 2.71%
Intuit 2.64%	Contact Energy 3.42%	Seven Group 2.55%
Charles Schwab 2.52%	NAB 3.25%	oOh!media 2.53%
Bristol-Myers Squibb 2.50%	Auckland Airport 2.89%	Monadelphous 2.26%

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, its staff and their families, have approx. $99.5 million invested in Milford's Investment Funds as of December 2022.

Jeremy Hutton
Investment Analyst

Investment Highlight: Contact Energy

Contact Energy (CEN) is a leading electricity generator and retailer ("Gentailer") listed on the NZX. It is the second largest generator of electricity in New Zealand, with approximately 25% of the market. Contact's generation base is a mix of South Island hydro, North Island geothermal, and North Island gas-fired thermal. The company is also active in the retail electricity and gas markets.

Contact (and the wider energy sector) have an important role to play in the decarbonisation of New Zealand. A core part of Contact's strategy is building new renewable energy to meet growing demand for electricity. This demand is driven by the increasing electrification of carbon intensive industries.

Contact has a significant pipeline of new renewable generation infrastructure to be built, including the sector leading Tauhara Geothermal project in Taupo which is under construction. Once complete Tauhara will deliver 1.4TWh of electricity per year at a total cost of $880m. It is scheduled to deliver its first power in Q2 of 2023.

NZ electricity demand

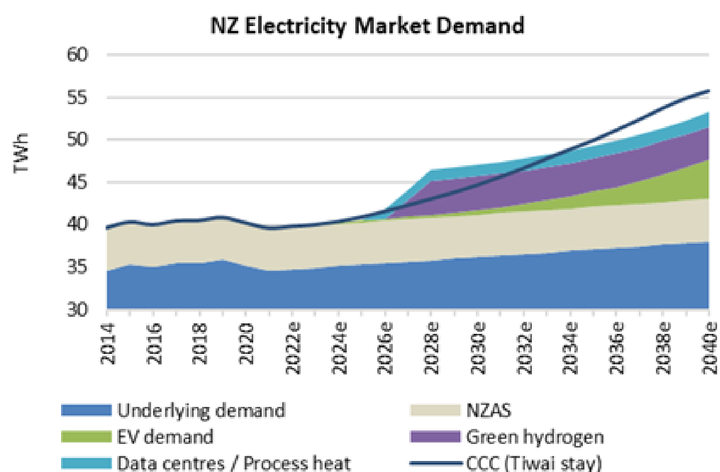
Electricity demand in NZ has been steady for much of the past decade at around 40TWh per year. However, to meet NZ's carbon emission commitments a lot of our industries and households will need to reduce their carbon footprint by transitioning away from fossil fuel power to electricity. According to the NZ Climate Change Commission, demand for electricity in NZ is expected to grow another approximately 20TWh or 50% by 2050. Demand is typically driven by population growth and changes in industrial load like the Tiwai NZAS smelter. In recent years, new demand has arisen from new technology with electric vehicles, data centres, coal boiler substitution, and green hydrogen expected to be large users of electricity.

Decarbonisation challenge

The key challenge for the industry is building the right amount of new renewable generation to meet this demand. We believe Contact is well placed with their significant Geothermal pipeline and strong balance sheet to help fund this development. Contact has 3.0TWh per annum of announced Geothermal projects to be delivered this decade. Fortunately, geothermal is not experiencing the same global supply chain constraints experienced by solar panels and wind turbines currently.

Outlook

Contact Energy is a core holding in many of the Milford funds. We are supportive of their new generation build pipeline and their contribution to helping NZ decarbonise. The sector is entering an exciting new phase and market tailwinds should add to growth for Contact Energy over the long term. By its nature as a utility and provider of critical services Contact has defensive qualities that we like which gives the stock good risk-return dynamics.



Source: Milford analysis, NZ Climate Change Commission

A photo from a Milford trip to the Tauhara Geothermal field. This is piping that takes steam from the drill well to the generation turbine hall to create electricity.

Disclaimer: Milford is an active manager with views and portfolio positions subject to change. This article is intended to provide general information only. It does not take into account your investment needs or personal circumstances. It is not intended to be viewed as investment or financial advice. Should you require financial advice you should always speak to a Financial Adviser. Past performance is not a guarantee of future performance.

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