Milford Investment Funds
Monthly Review September 2021

Glass half full

Share markets across the world had a solid August. Whilst bonds posted modest losses in the month, fund performance was broadly strong.

The NZX 50 return of 5% this month seems remarkable in the face of our latest Covid outbreak and subsequent level 4 lockdown. However, the NZ market has been a notable underperformer this year. Recently, this was likely due to investor fears over Reserve Bank rate hikes. The Covid outbreak put these on hold, sending investors back into NZ shares.

NZ companies also posted strong company earnings in August, highlighting the quality companies we have on the local market. Profit margins have remained intact despite notable cost increases. Strong performers for Milford funds were Mainfreight, EBOS and Summerset – all delivering gains of around 15-17% on the back of solid results. Although the outcome of the current virus outbreak is unknowable, it is unlikely that we will see a material impact on the NZ share market.

Shares are benefitting from the lack of alternative investments. With yields on bonds continuing to languish at depressed levels, global investors are pouring funds into share markets. This was evident in the strong performance of Australian dividend paying stocks with the Australian property sector up over 6%. Fund performance was also boosted by solid gains in the quality growth stocks such as Google, Microsoft and Amazon, all up around 4-7%. Banks also had a good month, particularly in the UK as that economy booms post their reopening.

As we look ahead, the path is less certain. Global economic growth has peaked, the Chinese economy is suffering from a self-induced slowing, inflation pressures remain high and bottlenecks in supply chains are constraining activity. Most concerning, global consumer confidence appears to be waning, perhaps due to fears over the Delta variant or frustration over rapidly rising purchasing prices of almost everything.

But stand back a little, and the medium-term outlook remains very rosy. Household savings are high, governments and central banks continue to stoke the economy, companies are well placed to increase profits. The global Delta surge is subsiding, and consumer confidence will likely return. We think the recovery still has legs.

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

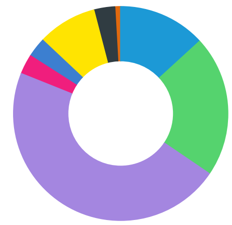
Portfolio Manager: Paul Morris

The Fund returned a moderate gain of 0.7% over the month. The return was held back by mixed returns from bonds as market interest rates generally moved incrementally higher (bond prices lower). This was however more than offset by a strong month for the Fund's shares which continue to benefit from ongoing strong company earnings and historically low interest rates.

The Fund's global shares continued their positive performance even though Delta is impacting short-term economic activity. August also saw impressive strength across the Fund's Australasian shares. This included notable gains from Australasian property shares with companies generally managing well through lockdowns. There was strong performance from the Fund's NZ shares. Mainfreight rose again, helped by inclusion in a global index, while the NZ retirement sector shares jumped on strong results.

Looking forward, ongoing above trend growth and historically low interest rates continue to support our reasonable outlook for returns, albeit near term volatility may increase. We remain wary of bonds given the risk of higher interest rates, retaining lower interest rate exposure. That said, our base case sees a lower eventual peak to this interest rate cycle. Combined with a supportive earnings outlook we maintain a slightly higher allocation to shares relative to the long-term neutral.

Actual investment mix[1]



- Effective Cash# 13.19%
- New Zealand Fixed Interest 21.32%
- International Fixed Interest 46.57%
- New Zealand Equities 2.99%
- Australian Equities 2.95%
- International Equities 8.93%
- Listed Property 3.16%
- Other* 0.89%

The actual cash held by the Fund is 10.10%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

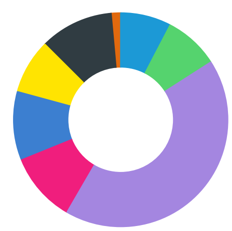
Diversified Income Fund

Portfolio Manager: Paul Morris

The Fund delivered a return of 1.6% in August. Bonds were mixed as market interest rates generally moved incrementally higher (bond prices lower). This was more than offset by a strong month for shares which continue to benefit from ongoing strong company earnings and historically low interest rates.

Of the Fund's larger share exposures there were notable gains from Australasian property shares with companies generally managing well through lockdowns. There was also strong performance from the Fund's NZ shares. Mainfreight rose again, helped by inclusion in a global index, while our NZ retirement sector shares jumped after announcing their results. The Fund has retained some exposure to companies which benefit from higher inflation. This serves as diversification away from traditional income shares. It includes banks, which recovered from recent weakness, and a small exposure to commodities, primarily BHP and Santos, which were weaker.

The Fund holds a core exposure to infrastructure companies. This includes toll roads and airports which should benefit from reopening. Atlas Arteria is one of the larger holdings and the shares jumped on higher use of its roads in France. Fund positioning remains broadly unchanged. We remain wary of bonds given the risk of higher interest rates, retaining lower interest rate exposure. That said, our base case sees a lower eventual peak to this interest rate cycle. Combined with a supportive earnings outlook we maintain a slightly higher allocation to shares relative to the long-term neutral. The outlook for returns remains positive but ongoing risks from COVID-19 and the fact we are likely past peak monetary and fiscal stimulus may mean higher market volatility in the near term.



- Effective Cash# 7.64%
- New Zealand Fixed Interest 8.28%
- International Fixed Interest 42.44%
- New Zealand Equities 10.50%
- Australian Equities 10.38%
- International Equities 8.25%
- Listed Property 11.08%
- Other* 1.43%

The actual cash held by the Fund is 4.75%. 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.

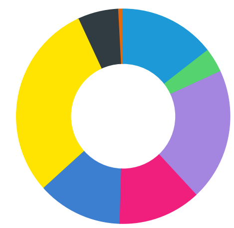
Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 2.2% in the month with a 1-year return of 16.7%. Share markets continue to drive higher and August saw strong gains in shares across the board, helping deliver good fund performance.

NZ shares were a standout, with a strong market return as well as good stock selection boosting returns. On the back of reporting better than expected profit outcomes, key holdings of Summerset and EBOS delivered gains of 17.1% and 15.9% respectively. With returns on bonds so low, we continue to find attractive opportunities from investing in high quality dividend paying stocks. Last month saw other investors follow suit and the Australian property sector delivered gains of over 6%. On the global side, we continue to see solid returns from high quality growth stocks such as Microsoft (+6.2%), Google (+7.6%) and Amazon (+4.3%). We continue to find reasonably valued opportunities in shares to invest in. Coupled with the constructive medium-term outlook, the Fund is likely to remain fully invested in shares for the foreseeable future. That being said, we are constantly reassessing the outlook and will make changes accordingly. Our biggest concern is the risk of higher interest rates and policy tightening from governments and central banks. The Fund is positioned to mitigate against this risk by maintaining an underweight position in bonds.

Actual investment mix[1]



- Effective Cash# 14.51%
- New Zealand Fixed Interest 3.67%
- International Fixed Interest 19.91%
- New Zealand Equities† 12.37%
- Australian Equities 12.84%
- International Equities 29.76%
- Listed Property 6.10%
- Other* 0.84%

The actual cash held by the Fund is 10.87%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

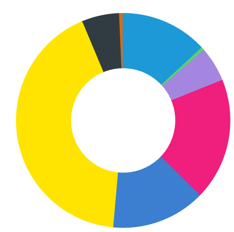
Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund returned 2.5% in August with continued strong gains from share markets; global (+2.7%), New Zealand (+5.0%) and Australia (+2.5%). Returns from fixed income were relatively flat. Global shares continue to benefit from low interest rates and generally strong company results released during the month. The New Zealand market got a boost from the delay in the expected rate hike from the Reserve Bank and continued high demand from investors.

Key positives during the month included New Zealand companies EBOS (+15.9%) and Summerset (+17.1%) which both reported strong earnings the month. EBOS continued to report reliable results with earnings up 15.5%. Summerset's underlying earnings rose 67% benefitting from a strong housing market and good sales. Globally, UK Banks Virgin Money (+7.2%) and Natwest Group (+6.7%) and Technology companies Google (+7.6%), Microsoft (+6.2%) and Intuit (+6.8%) had a positive month. Intuit is a US company providing tax and accounting software to individuals and small businesses. During the month we added a position in US company Analog Devices which designs and manufactures computer chips used in analog and digital signal processing. The company's products are used in industrial, communications, audio, automotive and battery management. We believe Analog Devices is well positioned to benefit from strong growth as companies continue to make devices smarter requiring more and more computer chips.

The outlook for shares remains supported by the prospect of robust economic growth, healthy company earnings, continued low short-term interest rates and high levels of liquidity. The key headwinds for markets are relatively high valuations, generally optimistic investor sentiment and the prospect of rising inflation and interest rates. On balance we retain a positive outlook for shares and the Fund has a higher-than-normal exposure to shares with lower weights in fixed income where we believe prospective returns are unattractive. We continue to focus upon company selection and believe there continue to be good opportunities to add value for investors.



- Effective Cash# 13.18%
- New Zealand Fixed Interest 0.46%
- International Fixed Interest 5.27%
- New Zealand Equities‡ 18.44%
- Australian Equities 14.05%
- International Equities 42.26%
- Listed Property 5.63%
- Other* 0.71%

The actual cash held by the Fund is 10.57%. 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 0.76% * 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

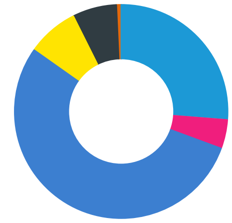
Portfolio Manager: William Curtayne & Wayne Gentle

August was yet another positive month for equities and the Fund returned 2.4%, bringing the returns over the last 12 months to 24.7%. The month was of course dominated by result releases from New Zealand and Australian companies. Overall, we saw strong results from companies but unsurprisingly some uncertainty on the outlook given the COVID-19 lockdowns in much of Australasia. Continually rising shipping costs were singled out as a key headwind for many businesses - some will be able to pass these costs on through price rises, while others will suffer some margin declines. Wage pressure is being felt in the mining industry but is only just beginning to show up in the broader economy. These factors all combine for a good stock picking environment going forward.

DGL was once again a highlight of the month. The dangerous goods logistics and storage business reported a strong result as customers move away from just-in-time inventory management and store more goods domestically with DGL given concerns over supply chains. We believe there is a structural shift where the COVID-19 pandemic and tensions with China will see a higher level of domestic inventories going forward.

The iron ore price fell sharply as a combination of a slowing Chinese economy, seasonal weakness, and steel manufacturing curbs ahead of the Beijing Winter Olympics in February caught up with the iron ore market. BHP was particularly weak as it also announced its intention to delist its Plc structure from the London Stock Exchange which resulted in technical weakness on the ASX. We took this opportunity to buy back into BHP after we had significantly reduced our holdings of BHP and other miners back in June.

Actual investment mix[1]



- Effective Cash[#] 26.25%
- New Zealand Equities 4.36%
- Australian Equities 54.17%
- International Equities 7.82%
- Listed Property 6.69%
- Other[*] 0.71%

The actual cash held by the Fund is 18.19%. 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 gained 2.6% in August. Global share markets continued to strengthen on robust earnings reports, as well as reassurance from the world's central banks that they will take a measured approach when reducing quantitative easing and raising interest rates.

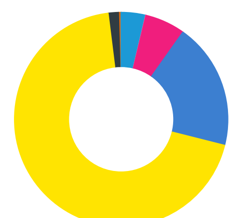
The US technology giants Microsoft, Alphabet (parent company of Google) and Apple delivered another strong month, reflecting the power of their business models. Alphabet (+7.6%) rose for an eighth consecutive month and has now generated an astonishing 66% return year to date. Microsoft (+6.2%) also powered ahead, a key beneficiary of the digitalisation trend globally. As companies and consumers move online, there is strong demand for Microsoft products such as cloud-based versions of the Office suite. Despite the outperformance, valuations of these technology giants still look reasonable relative to the broader market.

Another key positive contributor for the month was our favourite Indian bank, HDFC Bank, which made a strong recovery in August (+11.0%), as the Indian economy turns the corner and loan growth looks set to accelerate. MercadoLibre (+19.0%), the Latin American e-commerce and digital payments giant, soared in August with business momentum remaining strong as the company rolls out new products and improves its logistic network.

Detractors from performance included payments network Mastercard (-10.3%), on increased competition, and luxury goods company LVMH (-7.0%), on a potential slowdown in luxury spending due to regulatory tightening in China.

In Australasia, transport company Mainfreight was a standout (+14.6%), as well as Fisher & Paykel Healthcare (+4.9%). Australian conglomerate Seven Group (-8.6%) gave back some of July's strong gains.

Overall, the backdrop remains favourable given supportive policy and the accelerated vaccine rollout. In terms of risks, we continue to closely monitor the spread of the Delta variant and the effectiveness of the vaccines. The other key risk to the outlook would be an inflation surprise that forces central banks to accelerate interest rate rises. We continue to look for opportunities focused on our key investment themes.



- Effective Cash[#] 3.69%
- International Fixed Interest 0.05%
- New Zealand Equities 6.09%
- Australian Equities 19.10%
- International Equities 69.10%
- Listed Property 1.56%
- Other[*] 0.41%

The actual cash held by the Fund is 7.38%. 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

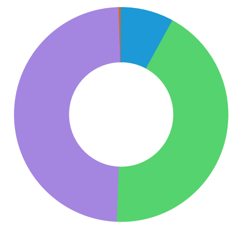
Portfolio Manager: Travis Murdoch

Fixed income markets had another mixed month in August. Government bond yields generally ended the month higher (bond prices lower) with the notable exception of Australia. In New Zealand, the market was expecting the Reserve Bank of NZ (RBNZ) to raise the Official Cash Rate by at least 25bps, but in light of the move to level 4 lockdown they opted to keep rates unchanged. Nonetheless, subsequent commentary from RBNZ decision makers made it clear that higher interest rates remain likely, and NZ government bond yields closed the month higher. Corporate bonds, to which the Fund is mostly exposed, generally had a constructive month in Australasia, despite the adverse Delta news flow.

The Fund returned -0.3% over the month which was in line with its benchmark. The Fund was active in primary markets in Australia where it added new bonds in companies including Commonwealth Bank of Australia and National Australia Bank. The Fund also took advantage of market strength to trim existing holdings. In aggregate, the Fund made a small reduction in its overweight in corporate bonds.

Looking forward, the outlook for economic growth remains constructive and supportive of company balance sheets, although ongoing risks from the virus and the potential reduction of monetary and fiscal stimulus could result in periods of higher market volatility. The Fund maintains its below neutral interest rate exposure which is focused in offshore markets where the risk of moves higher in interest rates are less reflected in prices than is the case in NZ bonds.

Actual investment mix[1]



The actual cash held by the Fund is 3.74%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

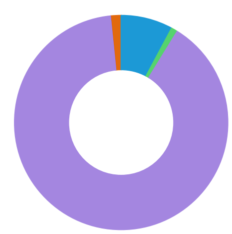
Global Corporate Bond Fund

Portfolio Manager: Travis Murdoch

Fixed income markets had another mixed month in August. Government bond yields generally moved higher (bond prices lower) with the notable exception of Australia. The US led the way with 10-year yields closing higher than the previous month for the first time since March 2021, driven in part by strong employment data which showed a substantial fall in the US unemployment rate. Corporate bond markets were more mixed, with a material outperformance in the US high yield market.

The Fund returned -0.1% over the month and underperformed its benchmark in part due to its below neutral allocation to the lower rated parts of the US high yield market. The Fund was active in primary markets where it bought bonds in new issues from companies including Barclays (UK bank) and Thermal Fisher (US healthcare).

Looking forward, we remain constructive on corporate bonds as global economic growth continues to underpin company balance sheets. Nonetheless, the Fund reduced its exposure to longer-dated corporate bonds as ongoing risks from the virus and the potential reduction of monetary and fiscal stimulus could result in higher market volatility. The Fund maintains below neutral allocation to the weakest parts of the high yield market and below neutral interest rate positioning to cushion against the potential impact a move higher in interest rates may have on bond returns.



The actual cash held by the Fund is 5.46%. 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

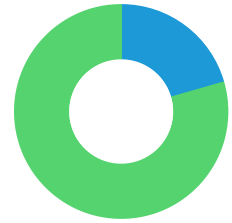
Portfolio Manager: Travis Murdoch

In August the Fund generated a return of 0.05%, in line with its objective to deliver a return in excess of the Reserve Bank of New Zealand (RBNZ) Official Cash Rate (OCR) after fees.

Short-dated NZ Dollar bank bills, a reflection of interbank funding levels, may be ending the month of August close to unchanged but that does not reflect the elevated levels we saw during the first half of the month. This was due to the market increasingly pricing further OCR increases over the coming months given the positive domestic economic picture at that time. This upward movement was quickly reversed when NZ went into a level 4 lockdown on the eve of the August RBNZ Monetary Policy Statement. That being said, recent commentary from the RBNZ continues to ultimately point to higher interest rates. This is in line with our base case view for a higher OCR, albeit timing is less certain given the recent COVID-19 outbreak and the resulting potential future economic impact it will have.

We continue to observe that excess liquidity in the financial system (exacerbated by the RBNZ's Funding for Lending Programme or FLP) means a lot of money is still chasing short-dated assets. That is likely to cap the yields/nterest rates available and as we previously discussed potentially diminish the excess return over the OCR the Fund can generate over the near and medium term. We would however reiterate that these developments have not changed the portfolio management of the Fund which remains focused on maintaining a low-risk strategy, built on a diversified portfolio of cash, short-dated debt securities and term deposits, to protect capital.

Actual investment mix[1]



Effective Cash# 20.56%
Other* 0%
New Zealand Fixed Interest 79.44%

The actual cash held by the Fund is 20.56%. 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

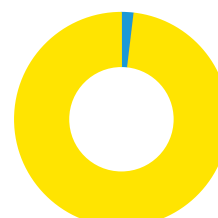
Portfolio Manager: Felix Fok

The Global Equity Fund gained 1.9% in August. Over 2 years, the Fund is up 49.0% compared to the market index which was up 41.0%.

Key positive contributors included US technology giants Microsoft (+6.2%) and Alphabet (parent company of Google, +7.6%), examples of two long-held holdings benefitting from secular, global technology trends in business and consumption.

Two holdings in emerging countries also performed strongly. Indian bank HDFC Bank (+11.0%) rose as the local economy turns the corner and loan growth is set to accelerate. MercadoLibre (+19.0%), the Latin American e-commerce and digital payments leader, soared after releasing its latest results. Indications continue to support the view that there is a long way to go for online shopping and financial empowerment in that region.

Detractors from performance included payments network Mastercard (-10.3%), as the Delta variant moderated consumption and travel, and luxury goods companies LVMH (-7.0%) and Kering (-10.9%), on a potential slowdown in China due to changes in government attitude and policies relating to its growing wealth gap.We are optimistic on the economic outlook given the positive vaccine developments provide light at the end of the tunnel. The portfolio remains focused on our key investment themes and dominant companies.



Effective Cash# 1.90%
Other* 0.02%
International Equities 98.08%

The actual cash held by the Fund is 3.54%. 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

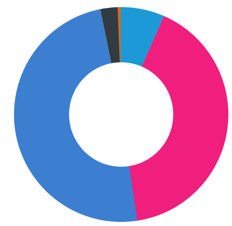
The Fund delivered a 4.4% return in August, bringing the 1-year return to 23.8%. The Fund's August performance compares to a return of 5.0% for the NZX 50 index and 2.5% for the ASX200. The strong performance was a combination of a well-supported local markets through the August earnings season and our stock selection.

August is an important month as many of our holdings report financial results for the past six months. It also provides an opportunity to discuss each company's outlook with management. Pleasingly, the earnings season exceeded expectations with a large number of companies delivering earnings 'beats' and management outlook comments indicating that the earnings momentum is set to continue. Cost pressures, which we had been concerned about prior and have been evident in parts of the local economies, do not appear to be having a material impact to profitability. This is reflective of strong business models.

Highlights for the month included retirement village operator Summerset (+17.1%), wealth management platform Hub24 (+25.0%) and Mainfreight (+14.6%). Summerset delivered a strong result, growing earnings by 67% vs the same COVID-19 impacted period last year. The company is seeing record sale volumes at villages and lifted its build rate to meet growing demand. Hub24 continues to win an increasing share of the Australian wealth management market and demonstrate significant operating leverage. Mainfreight rallied following a trading update in late July. Tightness in global supply chains is supporting exceptional growth for the company and allowing it to take market share. During the month we added Carsales to the Fund following a strong result that indicated pricing power and a significant growth runway ahead. We took profit on our holding in Fletcher Building following its strong result and trimmed Xero into strength.

Looking ahead, the Fund remains orientated towards cyclical stocks as the economic recovery from COVID-19 continues to surprise to the upside. The current virus outbreak and associated lockdown in NZ may create a short-term earnings headwind for some. However, this time around companies are generally far better prepared from both a balance sheet and operational perspective. Irrespective of short-term market performance, long-term returns will be influenced by our stock selection. That is our ability to position the Fund in companies that that can sustain earnings growth at above average rates (like Mainfreight, Xero and Fisher & Paykel Healthcare) and avoid those where we see stretched balance sheets, earnings or valuation risk.

Actual investment mix[1]



Effective Cash# 6.65% | Listed Property 2.60%
New Zealand Equities 41.04% | Other* 0.62%
Australian Equities 49.09%

The actual cash held by the Fund is 8.11%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

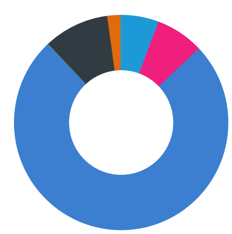
Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins

The Fund returned 6.0% in August, outperforming the S&P/ASX Small Ordinaries benchmark by 1.1%.

Overall, we saw strong results from companies over this reporting season, and somewhat unsurprisingly a lack of future earnings guidance. This resulted in a rather forgiving equity market. The optimism allowed us to take profits in some of our strong performing core positions and redeploy across new ideas. Performance was led by DGL (Dangerous Goods Logistics), an IPO that listed in May, which rallied ~44% following upgraded guidance. DGL is a founder-led business exposed to the logistics and storage of specialised chemicals. Lifestyle Communities (+14.9%) another founder-led business, upgraded its 3-year settlement guidance for their in-demand homes. Lifestyle is the owner and operator of affordable, independent living communities catering to the elderly, semi-retired and retired Australians.

Exposures which detracted from performance was iron ore miner Champion Iron (-22.5%) which fell with commodity prices and Seven Group (-8.6%) which disappointed with earnings guidance. After well over a hundred company meetings across the team in August, we always compile our takeaways across themes. These themes inform our positioning and provide direction into where we need to be looking for our next investment ideas to drive performance over the next 12 to 24 months.



Effective Cash# 5.75% | Listed Property 9.87%
New Zealand Equities 7.25% | Other* 2.19%
Australian Equities 74.94%

The actual cash held by the Fund is 5.75%. 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 $
Multi-Asset Funds							
Conservative Fund*	0.73%	5.39%	5.76%	5.82%	6.28%	1.2495	602.9 M
Diversified Income Fund*	1.62%	10.80%	7.58%	7.74%	10.63%	1.9160	2,789.4 M
Balanced Fund	2.15%	16.73%	10.30%	10.12%	10.37%	2.9646	1,633.4 M
Active Growth Fund	2.50%	22.42%	12.51%	12.34%	13.06%	5.1383	2,129.4 M
Australian Absolute Growth Fund	2.42%	24.66%	11.30%	—	11.57%	1.4609	474.7 M
Aggressive Fund	2.60%	—	—	—	—	1.0603	701.4 M
Cash and Fixed Income Funds							
Trans-Tasman Bond Fund*^	-0.29%	0.59%	4.07%	3.97%	5.03%	1.1993	896.6 M
Global Corporate Bond Fund*^	-0.10%	3.20%	4.83%	—	4.74%	1.1114	765.6 M
Cash Fund	0.05%	0.40%	—	—	0.98%	1.0247	92.5 M
Equity Funds							
Global Equity Fund†	1.90%	24.34%	16.14%	15.07%	11.53%	2.4709	1,464.9 M
Trans-Tasman Equity Fund*	4.44%	23.76%	15.45%	16.31%	12.52%	4.1411	982.0 M
Dynamic Fund	6.03%	34.98%	16.09%	16.10%	15.45%	3.0813	900.2 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: 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.

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)	5.00%	11.42%	13.26%	13.40%	15.41%
S&P/ASX 200 Accumulation Index (AUD)	2.50%	28.15%	9.87%	10.94%	8.58%
S&P/ASX 200 Accumulation Index (NZD)	1.06%	21.61%	8.11%	10.99%	7.44%
MSCI World Index (local currency)*	2.67%	30.12%	14.66%	14.70%	11.56%
MSCI World Index (NZD)*	1.63%	24.61%	12.72%	15.53%	13.52%
S&P/NZX 90-Day Bank Bill Rate	0.06%	0.32%	1.07%	1.46%	1.95%
Bloomberg Barclays Global Agg. Bond (USD-Hedged)	-0.20%	0.75%	4.84%	3.08%	3.54%
S&P/NZX NZ Government Bond Index	-1.25%	-5.30%	2.69%	2.63%	4.12%

*With net dividends reinvested

Upcoming Distributions

Fund	Target	Payment Date
Conservative Fund	0.5 cents (Quarterly)	21/10/2021
Diversified Income Fund	1.1 cents (Quarterly)	18/11/2021
Trans-Tasman Bond Fund	0.45 cents (Quarterly)	16/09/2021
Global Corporate Bond Fund	0.45 cents (Quarterly)	16/09/2021
Trans-Tasman Equity Fund	1.5 cents (Biannually)	16/09/2021

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

Multi-Asset Funds

Conservative Fund	Diversified Income Fund	Balanced Fund
Kiwibank 1.3% 2022 2.27%	Contact Energy 2.35%	Contact Energy 1.88%
NZLGFA 1.5% 2026 1.85%	Meridian 1.68%	Fisher & Paykel 1.67%
NZ Govt. 0.5% 2026 0.99%	Telstra 1.63%	Alphabet 1.32%
NAB Float 2026 0.92%	Scentre Group 5.125% 2080 1.61%	Microsoft 1.24%
Housing NZ 3.36% 2025 0.88%	Spark 1.54%	Virgin Money 1.10%
NZLGFA 1.5% 2029 0.86%	Transurban 1.39%	Mainfreight 1.04%
Scentre Group 4.75% 2080 0.84%	Charter Hall Retail 1.36%	Spark 1.03%
NZLGFA 3.5% 2033 0.80%	Goodman 1.33%	Telstra 1.02%
Wesfarmers 1.941% 2028 0.76%	NAB 1.10%	Charter Hall Retail 1.00%
Transpower 1.735% 2025 0.72%	NAB Float 2026 1.00%	Summerset 0.99%

Active Growth Fund	Australian Absolute Growth Fund	Aggressive Fund
Fisher & Paykel 3.25%	NAB 5.83%	Alphabet 2.77%
Contact Energy 3.20%	BHP Group 5.36%	Microsoft 2.74%
Virgin Money 3.16%	Telstra 4.32%	Thermo Fisher 1.92%
Alphabet 2.41%	CSL 3.59%	Mastercard 1.92%
Summerset 2.33%	Virgin Money 3.39%	TSMC 1.81%
Microsoft 2.18%	Evolution Mining 3.07%	S&P Global 1.76%
Dr Horton 2.07%	Bank of Queensland 2.89%	HDFC Bank 1.67%
Thermo Fisher 2.00%	Westpac 2.88%	Charles Schwab 1.60%
Lowe's 1.90%	Sydney Airport 2.53%	Ametek 1.59%
Charter Hall Retail 1.84%	Charter Hall Retail 2.49%	HCA Holdings 1.54%

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 4.44%	Becton Dickinson Euro 0.334% 2028 1.68%	Westpac 32 Day CMD 2020 20.54%
NZ Govt. 0.5% 2026 2.47%	Danaher Corp 0.45% 2028 1.62%	ASB Bank 0.62% 2021 12.98%
Housing NZ 3.36% 2025 2.19%	NXP BV 4.3% 2029 1.51%	ANZ 0.71% 2021 9.19%
NZLGFA 1.5% 2029 2.16%	McDonald's 3% 2024 1.48%	SBS CD 2021 8.10%
NZLGFA 3.5% 2033 1.99%	Scentre Group 4.75% 2080 1.45%	Port of Tauranga CD 2021 7.02%
Transpower 1.735% 2025 1.81%	Crown Euro. 3.375% 2025 1.43%	Auckland Airport CD 2021 5.40%
ANZ Bank Float 2024 1.74%	John Deere 1.75% 2024 1.41%	Spark CD 2021 5.40%
NAB Float 2026 1.66%	John Deere 0.70% 2026 1.38%	Spark CD 2021 4.32%
Macquarie Float 2025 1.65%	Bank of America 1.898% 2031 1.37%	Mercury CD 2021 4.32%
Westpac 1.439% 2026 1.63%	Vantage Towers 0.75% 2030 1.34%	Meridian CD 2021 2.16%

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
Alphabet 4.22%	Fisher & Paykel 7.03%	Virgin Money 4.26%
Microsoft 4.00%	Mainfreight 5.25%	Collins Foods 4.14%
Apple 3.08%	Xero 4.24%	Credit Corp 3.31%
Paypal 2.94%	CSL 3.54%	IGO 3.22%
Mastercard 2.46%	Infratil 3.27%	Carsales.Com 2.99%
Danaher 2.41%	NAB 3.12%	Lifestyle Communities 2.95%
Amazon 2.40%	Summerset 3.03%	Seven Group 2.82%
Thermo Fisher 2.26%	Westpac 2.79%	Evolution Mining 2.60%
Charles Schwab 2.22%	BHP 2.64%	IPH 2.49%
TSMC 2.19%	Contact Energy 2.45%	Contact Energy 2.47%

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 and Milford staff have approximately $31.0 million invested across our Investment Funds as at the end of August 2021.

Michael Luke
Investment Analyst

Investment Highlight

EBOS listed on the NZX back in 1960 as a small player in the New Zealand healthcare industry. Today EBOS is the largest wholesaler and distributor of healthcare products across Australia and New Zealand. It has achieved this through a combination of organic growth and large acquisitions. EBOS is also a large distributor of animal care products and the owner of several premium pet food brands. Just over 80% of earnings comes from healthcare while 20% comes from animal care.

Over the past 20 years EBOS has delivered an impressive shareholder return of 19.8%p.a. EBOS has been a core holding across several Milford funds since 2012 and we increased our shareholding in 2020 following a sell-down by a major shareholder. Our view at the time was that the market was underappreciating the defensiveness of EBOS's earnings as well as their growth runway.

Strong competitive position

EBOS is the market leader in most of their markets. In Australia EBOS are the largest distributor of pharmaceutical and healthcare products to pharmacies and hospitals. We estimate they have a 40% share of the pharmacy market, and 60% share of the hospital market. EBOS have also made significant investments in building the largest and most efficient healthcare distribution network across both Australia and New Zealand. Scale and higher levels of automation provides EBOS with a cost advantage when compared to their competitors. This allows them to earn better margins and generate higher returns on capital, in addition to offering a more reliable service to customers.

In healthcare distribution there are also very high barriers to entry due to both regulation and scale requirements.

Defensive sectors with solid growth outlook

Healthcare expenditure continues to grow driven by a growing and ageing population, while animal care expenditure has been growing strongly due to both an increasing pet population and humanisation of pets (a growing trend where owners treat their pets like children). Spending on pets grew very well over the past year as working from home saw a rise in pet adoption and how much we spend on our pets. Both sectors provide resilient and stable growth throughout economic cycles. Within these markets EBOS has also continued to gain market share which we expect will continue.

Both EBOS's strong competitive position and the underlying trends in these sectors have seen EBOS deliver consistent financial performance. EBOS has grown underlying earnings per share at a 10.6% compound annual growth rate since 2014.

The defensive nature of EBOS's products and services also meant that during 2021 EBOS achieved another record year with 14.0% earnings growth despite the COVID-19 pandemic.

Disciplined capital allocation

EBOS has a solid track record of creating shareholder value through accretive acquisition. This has included several transformative acquisitions since listing, such as the purchase of Symbion in 2013 for $1.1bn. At the time, Symbion was the largest healthcare distributor and wholesaler in Australia, and the acquisition forms the core of the Australian business EBOS has today. Subsequent acquisitions have been smaller bolt-ons in existing or similar markets.

When making acquisitions or investments, EBOS adheres to a disciplined investment framework and requires investments to achieve a return on cash employed (ROCE) of at least 15%. EBOS has consistently achieved this, with a ROCE of 18.0% in 2021.

Outlook from here

Consistent growth over the years and resilience during COVID-19 has seen both future earnings expectations, and the multiple investors will pay for those earnings, rise. This has driven an increase in EBOS's share price from $24 at the start of 2020 to $35 today.

EBOS is in a strong competitive position and well placed to continue to grow earnings over the long term. They also have a solid balance sheet with plenty of capacity for further investments or acquisitions that will deliver value to shareholders.