Brent Sheather's RESEARCH

AUGUST 2026

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INFINZ PICKS MILFORD AS DIVERSIFIED GROWTH FUND MANAGER OF THE YEAR (AGAIN): PART 2

In my last column we began a two part story on the 2026 INFINZ Diversified Growth Fund Manager Award. We noted that in New Zealand virtually all diversified growth funds have international shares as the single largest asset class and made the point that Milford's international share fund had underperformed the benchmark materially in the last five years. With that background we will today look at how the judges arrived at their decision to choose Milford as "best in class".

By email one the judges supplied some more background as follows:

- *"Only New Zealand based fund management teams are eligible. This includes managers who have outsourced the day-to-day funds management but determine the strategic asset allocation and have actively selected the managers who have been subcontracted. Fund Managers must have had an eligible fund in place for at least the five previous calendar years which was open to either wholesale or retail investors in New Zealand. Eligible funds must be: widely diversified, hold between 63-89.9% of growth assets within their portfolios and have a minimum of $50m FUM. A fund manager may have multiple eligible funds, in which case a weighted average of performance will be used".* Despite that the only fund the judges looked at for Milford was the Active Growth Fund.

- All performance numbers were post fees pre-tax and using those numbers the judges calculated the Information Ratio for the 1, 3 and 5 year periods ended 31/12/25. The information ratio is relative performance adjusted for risk and is calculated using the following formula:

$$IR = \frac{\text{Portfolio Return – Benchmark Return}}{\text{Tracking Error}}$$

Whilst the information ratios were calculated relative to market index benchmarks the information ratios of each fund were compared to other funds in the interview list. So performance comparisons were made not with a benchmark but against the performance of other funds. Having said that some of the eligible funds were index funds eg Simplicity.

- *"We reached an "interview list" (of five this year), by calculating the 1, 3 and 5 year information ratios for the eligible growth funds. This was distilled down to the finalists (three this year) by considering both the quantitative and qualitative aspects. Past performance ("quantitative factors") was weighted 50%.* Quantitative Factors: Measured on Information Ratio basis; that is, risk-adjusted-performance over the previous five calendar years. To assess this, an independent benchmark will be calculated by the judging panel using headline market indices. The performance is assessed as a weighted average taken over all the eligible funds, with the most recent years having a higher weighting.

  The other 50% was given to scoring "qualitative factors" which included People, Investment Approach & Portfolio Management, Team/Business Stability, Fees, SRI/ESG."

Based on the above Milford got the prize. I must say I was surprised that the judges didn't look more widely at the performance of other Milford growth funds – especially given that "*the fund manager*

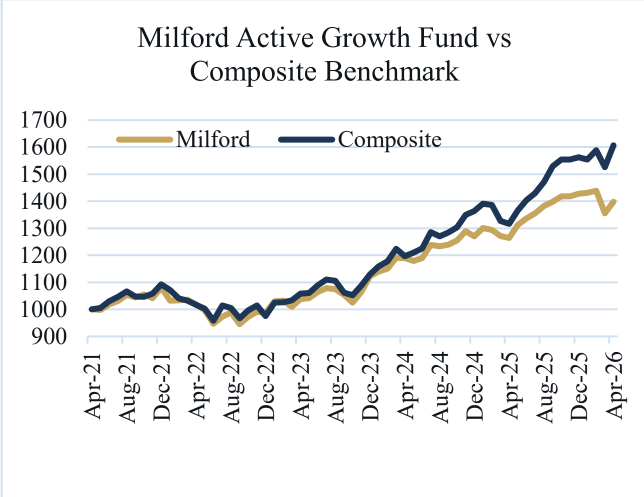
INFINZ PICKS MILFORD AS DIVERSIFIED GROWTH FUND MANAGER OF THE YEAR (AGAIN): PART 2

may have multiple eligible funds in which case a weighted average of performance will be used." To give readers more background the table below compares the performance of Milford's International and Trans-Tasman Funds with, in my opinion, the appropriate unhedged benchmarks, ex Refinitiv. Based on that information we see that both Milford funds have materially underperformed in every time period. As noted in Part 1 it is my view that the unhedged benchmark is an appropriate benchmark because hedging, like picking stocks, is an active decision and Milford have taken an active position, on behalf of their clients, to hedge.

Period Ended 30/4/2026	1 year	3 years (p.a.)	5 years (p.a.)
Milford Global Equity Fund (pre tax, post fees)	18.90%	12.90%	7.74%
World Stockmarket (Unhedged)	32.20%	22.20%	15.80%
Milford Trans-Tasman Equity Fund (pre tax, post fees)	15.80%	4.69%	3.27%
Composite Benchmark (50% S &P NZX50 and 50% ASX 200)	16.80%	8.55%	5.85%
Source: Milford, Refinitiv			

So, relating the above to the performance of the Active Growth Fund, those two sectors, international shares and NZ/Australian shares, account for about 80% of the Active Growth portfolio and in both of those sectors Milford has underperformed. The rest of the Active Growth portfolio is made up of cash and bonds.

Putting all of this together I have attempted to show the relative performance of the Active Growth Fund versus an appropriate, in terms of asset allocation, composite index in the graph above. The Active Growth data is sourced from Refinitiv and the composite index is made up of 10% NZ bonds, 10% unhedged global bonds and 80% equities where the equity portfolio is 70% international and 15% NZ and Australia equally, all ex Refinitiv. The above arguably overstates the relative performance of Milford as the bond component of the benchmark is largely represented by Government bonds whereas the Active Growth Fund appears to have a small exposure to unrated debt. The performance deficit outlined above didn't impact the judges' decision



because they compared Milford's performance with other New Zealand managers – not the benchmark.

We can see from the graph above and the table below that Milford Active Growth matched the index until early 2023 but has substantially under-performed the composite benchmark more recently. Indeed, as the table below illustrates the gap has widened in recent years which is consistent with academic research which suggests that as managed funds get bigger it is more difficult to out-perform.

Period Ended 30/4/2026	1 year	3 years (p.a.)	5 years (p.a.)
Milford Active Growth Fund (pre tax, post fees)	10.45%	10.74%	7.36%
Composite Index (pre tax, no deduction for fees)	22.0%	14.9%	9.9%
Source: Milford, Refinitiv			

So my guess is that Milford got the prize for one or more of three reasons: - Firstly, the information ratio, which as outlined above, also has regard to risk, indicated that whilst Milford underperformed the benchmark it did so with substantially less risk. Secondly, even though Milford underperformed the benchmark in terms of performance, its degree of underperformance was less, on a risk adjusted basis, than that of its competitors. If the latter scenario explains Milford's place as "best in show" perhaps one could characterise the INFINZ diversified Growth Fund Manager of the Year award as going to the "least worst" competitor given that no comparison has actually been made with the benchmark or, thirdly it did better in terms of the ethereal factors. Note that the judges made

INFINZ PICKS MILFORD AS DIVERSIFIED GROWTH FUND MANAGER OF THE YEAR (AGAIN): PART 2

the decision assigning an equal weight to the quantitative and qualitative factors. My view is that most retail investors, and maybe institutional investors, in real life would assign a greater weighting to performance, especially long term performance.

I put the above data and potential explanations for Milford's success to INFINZ and the judges and asked how Milford Active Growth's IR compared with its benchmark and would it have won if the judges had only looked at quantitative factors. INFINZ and the judges declined to comment.

Incidentally, Milford Active Growth is Milford's biggest fund and due to its high annual fee (1.05% pa) and its somewhat controversial performance fee it is likely to be the single biggest contributor to Milford's earnings. I estimate that, in the 10 years to March 2025, Milford Active Growth's management and administration fees totalled \$181m, with performance fees paid by clients footing to another \$65m, to make a grand total that Milford Active Growth clients have paid in fees in the last ten years of \$246m. Performance fees, based on an absolute return, for a fund whose performance is largely a function of equity returns, have been the subject of some comment from regulators both locally and overseas.

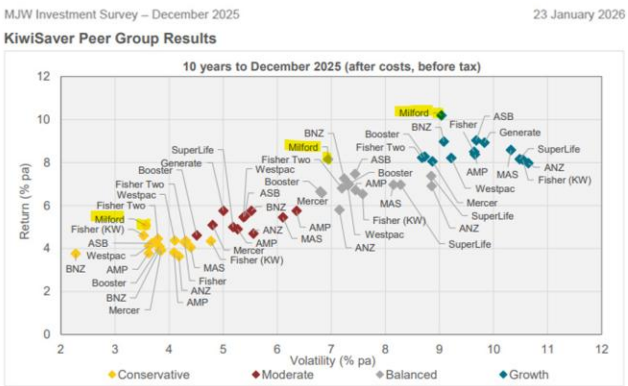
Given the performance fee I asked the judges whether they had considered that and whether, in their day jobs, they recommend their institutional clients invest in a long-only equity fund with an absolute return performance fee? The judges declined to comment.

Prior to publication I emailed my draft story to Milford and their comments were as follows: "*This article contains a number of misleading interpretations and factually incorrect applications of data. We would like to provide clarification.*

The Active Growth Fund does not invest in the Milford Global Equity Fund or Trans-Tasman Equity Fund and, at the period relevant to the INFINZ award (31 December 2025), had 0% exposure to those Funds. This column nonetheless uses their performance as a proxy for the Active Growth Fund's performance, and measures that proxy against inappropriate benchmarks, rather than assessing the Fund in its own right.

The Active Growth Fund is a diversified multi-asset fund designed to deliver long-term, risk-adjusted outcomes across a full market cycle – not to outperform a single equity market or a self-constructed index. Its stated benchmark is a 10% p.a. return objective. We encourage readers to assess Milford's performance through relevant independent surveys and long-term provider rankings.

For example, MJW's KiwiSaver peer group results for the ten years to December 2025 are set out below, including the Milford Active Growth KiwiSaver Fund in the Growth category":



Brent Sheather is a Financial Advice Provider. A disclosure statement is available upon request. Brent Sheather may have an interest in the companies discussed.