



The Milford Balanced Fund

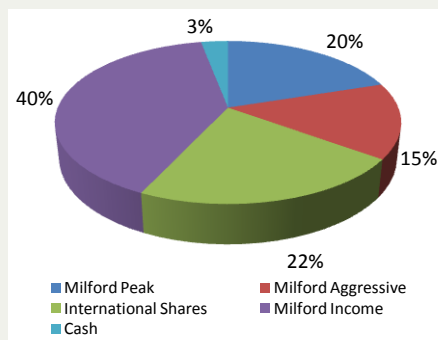
Client Update

January 2011

Portfolio Manager

Milford's Investment Committee

Portfolio Mix



Fund Size

\$2.4 million at 31/12/2010

Fees

1.05% capped annual fee. To the extent that assets of the Milford Balanced Fund are invested in any other Milford Funds the Balanced Fund will be fully rebated for the management fees charged within those Funds. However, any performance fee charged by Milford in respect of those Funds will remain payable.

Investment Objective

The Fund's target is to achieve capital growth over time by holding a diversified investment portfolio including New Zealand and overseas cash, bonds and shares.

Economic and Market Review

Economic activity in New Zealand remains subdued as evidenced by the third quarter GDP which showed that activity fell 0.2%. In response to slow growth and subdued inflation the RBNZ left the official cash rate unchanged at its December meeting. Global economic activity continues to recover with the United States surprising on the upside.

Share markets posted positive returns in December as investors focused upon improving economic conditions and attractive valuations. The NZ, Australian and world share market indices returned 1.4%, 3.7% (5.3% in \$NZ), and 6.3% (1.2% in \$NZ) respectively. The \$NZ rose strongly against the \$US during the month benefiting from continued strong demand and prices for New Zealand's exports. Fixed income investments produced moderate returns for the month with the index up 0.6%.

Portfolio Review

The Milford Balanced Fund rose 2.2% (after all fees and before tax) during the month benefiting from the strong performance of the Milford Peak Fund of +4.3%. Income investments produced moderate returns with the Milford Income Fund returning +0.7%.

During the month the Fund increased its holding in growth investments which increased to 57% at the end of the month, up from 51% at the end of the previous month. We believe that growth investments will benefit from an improving economic outlook, attractive valuations, low interest rates and a slowly improving appetite for risk from investors. We continue to actively manage the Fund currency exposure and increased hedging following falls in the value of the \$NZ and reducing again as the \$NZ strengthened.

Market Outlook and Investment Strategy

Global Economic growth should continue to improve in 2011 driven by strong growth in emerging markets, very low interest rates in the US and an improvement in economic confidence generally. However, the recovery remains fragile given: high levels of debt rising inflation in China, Government spending cuts in Europe and high levels of unemployment in the US.

New Zealand growth should continue to be supported by strong demand for our exports, the Rugby World Cup and rebuilding following the Canterbury earthquake. Given the improving economic background the Fund strategy is to retain a bias toward growth rather than income investments with share based investments focussed in the NZ, Australian and Asian markets which we believe are relatively robust. Reflecting the uncertain outlook the Fund remains active and ready to adapt to changing market conditions.

Disclosure of interest: Milford staff have \$179,000 invested in the Fund at the 31 December unit price.

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www.milfordasset.com

MilfordFundsLimited



Performance to 31 December 2010 (after fees and before tax)

	Past Month	Past 3 Months	Past 6 months	Inception 1 April 2010
Milford Balanced Fund	+2.2%	+2.5%	+7.0%	+3.0%

Market Returns by Investment Sector

Sector	Past month	Past 9 months	Index
NZ shares	+1.4%	+1.3%	NZX50 Gross Index
Australian shares (\$NZ)	+5.3%	+1.8%	ASX 200 Gross Index in \$NZ
Global shares (\$NZ)	+1.2%	-3.1%	MSCI World Index in \$NZ
NZ Property	-0.4%	+6.2%	NZX Property Index
NZ Bonds	+0.7%	+6.1%	NZX Corporate A Index
NZ Cash	+0.3%	+2.2%	NZX Cash Index

Investment Holdings

	31 December 2010	Neutral*
Milford Peak Fund	20.4%	20.0%
Milford Aggressive Fund	15.4%	20.0%
International Share Funds	22.0%	20.0%
Total Growth	57.8%	60.0%
Milford Income Fund	39.7%	37.5%
Cash	2.5%	2.5%
Total Income	42.2%	40.0%
Total Fund	100.0%	100.0%

*Indicative sector allocation if Milford believed each sector was fairly valued in terms of expected risk and return

