



# The Milford Balanced Fund

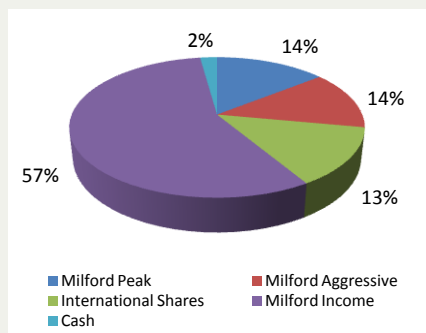
## Client Update

September 2011

### Portfolio Manager

Milford's Investment Committee

### Portfolio Mix



### Fund Size

\$13.1 million at 31/08/2011

### 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

New Zealand economic data continued its positive tone during the month with a recovery in building consents and good retail sales data. In contrast global economic data continued to deteriorate in most regions of the world. The slowdown in global data led most economists to push back expectations for the Reserve Bank of NZ to increase the cash rate.

Markets were extremely volatile during the month, initially in response to a downgrade of the US government debt rating and subsequently due to concerns about the funding of government debt in Europe. Share markets recovered some of their losses but ended the month down. The New Zealand, Global (in \$NZ) and Australian share market indices returned -2.1%, -1.8% and -4.6% respectively. Fixed income investments rose with investors seeking the security of fixed rates. The NZX Corporate Bond index rose 1.1% during the month.

### Portfolio Review

The Milford Balanced Fund fell 1.4% (after fees but before tax) in August. The Fund was negatively impacted by share market falls despite being relatively defensively positioned.

Reflecting the continued uncertain economic environment the Balanced Fund continues to remain underweight in growth or share based funds which represented 41% of the Fund at month-end. This is below the 60% target the Fund would adopt in more normal market conditions. Within growth funds we increased the holding to New Zealand and Australia and reduced our exposure to international funds. Following a sharp fall in the value of the \$NZ the Fund increased the level of currency hedging to around 75% which protected the Fund from the subsequent rebound in the \$NZ.

### Market Outlook and Investment Strategy

The short-term outlook for markets remains uncertain due to slowing growth, rising inflation and a focus upon government debt levels and funding. Markets are likely to remain volatile and focussed on any measures by the US and European governments and central banks to solve their debt problems and boost growth. Unfortunately, we believe that there are no instant cures and the economic environment is likely to remain difficult. However, the good news is that following sharp falls, share market valuations are very attractive and are priced for a sharp fall in growth. Therefore any moves by policy makers to boost confidence and stabilise growth could see a quick recovery in markets.

The strategy of the Fund remains defensive and biased toward income rather than growth based investments. However, reflecting the attractive valuations we may look to increase the weighting to shares following further falls or on signs of a stabilisation in growth or confidence.

*Disclosure of interest: Milford staff have \$176,000 invested in the Fund at the 31 August 2011 unit price.*

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[www.milfordasset.com](http://www.milfordasset.com)

MilfordFundsLimited



## Performance to 31 August 2011 (after fees and before tax)

	1 Month	6 Months	1 Year	Since Inception 1 April 2010
<b>Milford Balanced Fund</b>	(1.4%)	(2.3%)	+3.6%	+1.9%

## Market Returns by Investment Sector

Sector	1 month	Past 1 Year	Index
NZ shares	-2.1%	+9.5%	NZX50 Gross Index
Australian shares (\$NZ)	-1.8%	+0.2%	ASX 200 Gross Index in \$NZ
Global shares (\$NZ)	-4.6%	-8.3%	MSCI World Index in \$NZ
NZ Property	-0.1%	+17.4%	NZX Property Index
NZ Bonds	+1.1%	+7.0%	NZX Corporate A Index
NZ Cash	+0.2%	+2.8%	NZX Cash Index

## Investment Holdings

	31 August 2011	Neutral*
Milford Peak Fund	14.4%	15.0%
Milford Aggressive Fund	13.5%	15.0%
International Share Funds	13.4%	30.0%
<b>Total Growth</b>	<b>40.5%</b>	<b>60.0%</b>
Milford Income Fund	56.5%	37.5%
Cash	2.2%	2.5%
<b>Total Income</b>	<b>58.7%</b>	<b>40.0%</b>
<b>Total Fund</b>	<b>100.0%</b>	<b>100.0%</b>

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

