

The Milford Income Fund

Client Update

August 2011

Portfolio Manager

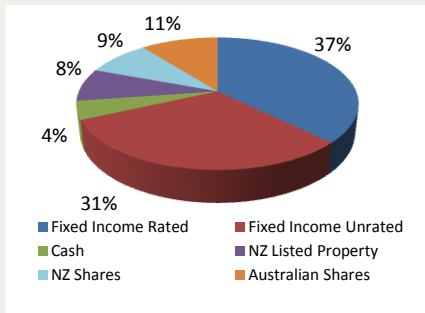


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Economic and Market Review

New Zealand Economic data continued to improve over the month with strong business confidence, GDP and retail sales figures. Despite the Christchurch earthquake NZ GDP grew 0.8% in the first quarter of 2011, ahead of economist predictions. The Reserve Bank of New Zealand left the official cash rate unchanged at 2.5% during the month although it indicated that the 0.5% rate cut in March 2011 was not likely to remain in place much longer. Many economists now expect the RBNZ to raise the cash rate to 3.0% at its September meeting.

Portfolio Mix



The New Zealand and Australian share markets fell 2.1% (NZX Portfolio Index) and 4.0% (7.0% in \$NZ) respectively in July. They were negatively impacted by slowing global economic data and uncertainty surrounding US and European government debt levels. The NZ corporate A grade fixed income index was flat whilst the NZX property index fell 0.2%.

Key Fund Stats

Fund Size	\$60.2m
Unit Price	\$1.0599
Yield of investments*	7.7%
Target Quarterly Distribution	1.4c
Next distribution	25 Aug 2011

* Weighted average yield of current investments gross of fees and tax, but including tax credits. The Funds actual return will be higher or lower than the yield of investments.

Portfolio Review

The Milford Income Fund fell 0.9% (after all fees and before taxes) in July and is up 8.6% over the last year. The Fund was negatively impacted by its share investments: Stockland -10.5%, Mirvac -8.0%, Vector -6.7% and Restaurant Brands -4.8%. Stockland and Mirvac are Australian property companies and were negatively impacted by the weakening Australian economy. Vector was negatively impacted by the Commerce Commissions draft electricity price adjustments which provide for Vector's line charges to fall by 9.0%. Despite this we believe Vector can maintain current dividends, which (including imputation credits) will deliver a yield of approximately 8.5%. Additionally, Vector has some upside if it is successful in its appeals against these decisions.

Fees

0.65% capped annual fee plus a Performance Fee of 10% of returns (after the management fee) above the investment objective.

During the month the Fund added to NZ fixed income and property and reduced its holdings in Australian shares. The weighted average gross yield of the Fund's investments ended the month at 7.7%.

Investment Objective

The Funds objective is to exceed the 90-Day Bank Bill Index (after fees & before tax). We consider the Fund suitable for investors with a time horizon of at least three years.

Market Outlook and Investment Strategy

The outlook for the New Zealand economy continues to improve and should be supported by the rebuilding in Christchurch and strong export prices. Whilst the RBNZ is likely to remove its March 2011 rate cut we believe further rate rises will be gradual due to the relatively high level of consumer debt and the high level of the \$NZ. The Fund continues to favour investments in higher yielding fixed income investments where there is an attractive return premium and in companies which have strong and growing dividends.

Disclosure of interest: Milford Staff have \$777,000 invested in the Fund at the 31 July 2011 unit price.



Performance to 31 July 2011 (after fees and before tax)

	Past Month	6 Months	1 Year	Since Inception 1 April 2010 (Annualised)
Milford Income Fund	(0.9%)	+4.4%	+8.6%	+8.5%
Benchmark (90 Day Bank Bill Index)	+0.2%	+1.4%	+3.0%	+3.0%
Over / Under Performance Benchmark	-1.1%	+3.0%	+5.6%	+5.5%

Income Fund Investment Breakdown

	31 July 2011	Neutral Allocation ⁽¹⁾	Gross yield ⁽²⁾
Fixed Income Securities			
Fixed Income Rated	37.3%	40.0%	6.5%
Fixed Income Unrated ⁽³⁾	30.9%	17.5%	8.5%
Global Fixed Income	0.0%	15.0%	-
	68.2%	72.5%	7.5%
Equity Income Securities			
NZ Property	8.0%	7.5%	9.3%
NZ Shares	8.7%	10.0%	9.6%
Australian Shares	10.6%	7.5%	8.6%
	27.3%	25.0%	9.1%
Cash	4.5%	2.5%	2.5%
Total	100.0%	100.0%	7.7%

(1) Indicative sector allocation if Milford believed each sector was fairly valued

(2) Weighted average yield of investments gross of fees and tax, but including tax credits. The Funds actual return will be higher or lower than the yield of investments.

(3) Unrated fixed income investments do not have an official investment credit rating. However, we research each company and invest where we believe that the risk of default is minimal and that the yield premium is attractive relative to the risk incurred.

Top Holdings

Fixed Income Investments		Share Investments	
Fixed Income Security	Percentage	NZ Shares	Percentage
Genesis Energy July 2016	6.3%	Restaurant Brands	2.7%
ANZ National Bank April 2013	5.3%	Argosy Property Trust	2.4%
Goodman Property September 2017	3.8%	Vector	1.8%
GPG November 2012	3.8%	Vital Healthcare Property Trust	1.8%
Kiwi Capital Securities May 2015	2.7%	Goodman Property Trust	1.5%
BNZ June 2014	2.5%	Kiwi Income property Trust	1.3%
Works Finance Limited	2.4%	Australian Shares	Percentage
APN March 2016	2.4%	Cromwell Group	2.7%
Telstra Corporation	2.0%	Goodman Plus Trust	2.5%
Healthscope June 2016	1.8%	Spark Group	2.0%
AMP April 2019	1.7%	APA	1.9%
Tower Capital April 2014	1.6%	Mirvac	1.5%

