



# The Milford Income Fund

## Client Update

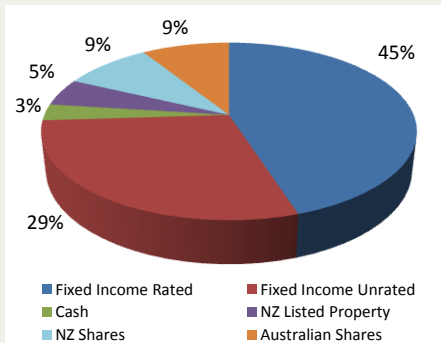
February 2011

### Portfolio Manager



Jonathan Windust CFA

### Portfolio Mix



### Key Fund Stats

Fund Size	\$27.6m
Unit Price	\$1.0377
Yield of investments*	8.2%
Target Quarterly Distribution	1.25c
Next distribution	24 Feb 2011

\* 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.

### Fees

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

### 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.

### Economic and Market Review

Economic growth in New Zealand remains subdued with retail spending in particular remaining weak. Consumers and businesses continue to repay debt and increase savings rather than spend. In response to slow growth the Reserve Bank left the cash rate unchanged at 3.0% at its January meeting citing weaker than expected economic activity. The bright spot in the New Zealand economy is strong prices for our commodities with the ANZ commodity index rising over 20% from a year ago.

Markets produced moderate returns over January with the NZ share market index up 0.9% and the NZ fixed income index up 0.6%. Returns from Australian investments were negatively impacted by a 1.6% rise in the value of the NZ dollar versus the Australian dollar.

### Portfolio Review

The Milford Income Fund fell 0.1% during January (after all fees and before tax). The Fund was negatively impacted by its investment in Restaurant Brands which reversed a small portion of the very strong investment returns it has generated over the Fund's holding period. We continue to believe that Restaurant Brands is an attractive investment given the strong position of its core KFC business and future growth opportunities.

During the month the Fund added to its holdings in Vector. We believe that following recent regulatory reviews Vector is well placed to maintain and grow its dividend. The weighted yield of the Fund's investments rose from 8.0% to 8.2% during the month. The yield increased following an increase in the holding of share based investments which produce higher yields.

### Market Outlook and Investment Strategy

We continue to forecast that New Zealand interest rates are likely to remain relatively low for some time due to weak demand in the domestic economy and relatively limited inflation pressures. Accordingly we continue to favour longer dated bonds which offer an attractive yield premium. We also believe the yield premium on selected unrated investments remains attractive. An improving economy, boosted by the Rugby World Cup, should be positive for share based investments and we will continue to increase our exposure to those companies which we believe can deliver consistent and growing dividends.

Disclosure of interest: Milford Staff have \$751,600 invested in the Fund at the 31 January unit price.



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

	Past Month	Past 3 Months	Past 6 months	Inception 1 April 2010
<b>Milford Income Fund</b>	(0.1%)	+0.7%	+4.0%	+6.9%
<b>Benchmark (90 Day Bank Bill Index)</b>	+0.2%	+0.8%	+1.6%	+2.5%
<b>Over / Under Performance Benchmark</b>	(0.3%)	(0.1%)	+2.4%	+4.4%

## Income Fund Investment Breakdown

	31 January 2011	Neutral Allocation <sup>(1)</sup>	Gross yield <sup>(2)</sup>
<b>Fixed Income Securities</b>			
Fixed Income Rated	44.7%	40.0%	7.1%
Fixed Income Unrated <sup>(3)</sup>	29.4%	17.5%	9.2%
Global Fixed Income	0.0%	15.0%	-
	<b>74.1%</b>	<b>72.5%</b>	<b>7.9%</b>
<b>Equity Income Securities</b>			
NZ Property	5.0%	7.5%	9.1%
NZ Shares	9.0%	10.0%	9.4%
Australian Shares	8.8%	7.5%	9.7%
	<b>22.8%</b>	<b>25.0%</b>	<b>9.5%</b>
Cash	3.1%	2.5%	3.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>8.2%</b>

(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		Shares Investments	
Fixed Income Security	Percentage	NZ Shares	Percentage
ANZ National Bank April 2013	5.2%	Restaurant Brands NZ	3.6%
BNZ June 2014	5.1%	Vector Ltd	2.2%
Tower Capital April 2014	3.6%	Tower Limited	2.0%
Kiwi Capital Securities May 2015	3.5%	Vital Healthcare Property Trust	1.4%
GPG November 2012	3.3%	Briscoes	1.0%
APN March 2016	3.2%	<b>Australian Shares</b>	<b>Percentage</b>
Greenstone Energy October 2016	2.8%	Transfield Infrastructure	2.1%
Goodman Fielder May 2016	2.8%	Healthscope	1.9%
AMP April 2019	2.3%	Cromwell Group	1.8%
Works Finance September 2012	2.3%	APA Group	1.7%
INFTL May 2011	2.2%	Spark Infrastructure	1.6%
Manukau City Council September 2017	1.9%	CFS Retail Property Placement	0.9%

