



# The Milford Income Fund

## Client Update

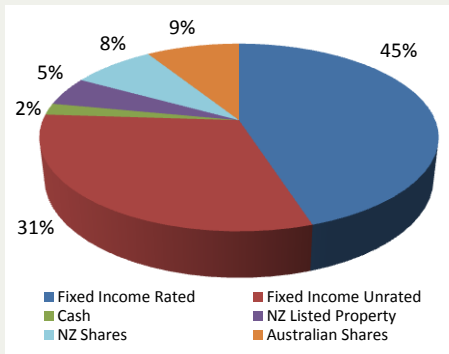
January 2011

### Portfolio Manager



Jonathan Windust CFA

### Portfolio Mix



### Key Fund Stats

Fund Size	\$26m
Unit Price	\$1.0406
Yield of investments*	7.9%
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 activity in New Zealand remains subdued as evidenced by the third quarter GDP which fell 0.2%. In response to slow growth and subdued inflation the Reserve Bank of NZ left the official cash rate unchanged at 3.0% and lowered their projections for the speed of future rate rises. In Australia the RBA also left the cash rate unchanged at 4.75%.

Returns from New Zealand fixed income investments were moderate during the month with the index rising 0.6%. NZ listed property shares fell 0.4% and were negatively impacted by new capital being raised by Vital Healthcare to fund an Australian acquisition. In contrast share markets generated good returns with the NZX50 index up 1.4%. Shares benefited as investors focussed upon an improving economic outlook and attractive company valuations.

### Portfolio Review

The Fund returned 0.7% during the month (after all fees and before tax). The Funds investment in Australian property company Cromwell Group performed strongly during the month (+7.7%) in part due to a potential acquisition which will add to the management fees its earns. We continue to like Cromwell given its high dividend yield and very strong management team and structure.

During the month the Fund participated in the underwriting of the Vital Healthcare capital raising for which the Fund earned a fee. As a result of the capital raising being undersubscribed the Fund received an allocation of shares to the company. At current prices we believe Vital is attractive given its relatively higher after tax yield and defensive cash flows. The weighted average yield of the Fund's investments (including tax credits) was 8.0% at the end of December.

### Market Outlook and Investment Strategy

New Zealand interest rates are forecast to remain relatively low for some time reflecting weak demand in the domestic economy and limited inflation pressures. The Reserve Bank is forecasting only modest interest rate increases rises toward the end of 2011. Against this background we believe that the yield premium for longer dated bonds remains attractive. Additionally, we believe an improving economic backdrop should be positive for share based investments. Share investments are concentrated in companies with strong cash flows, strong balance sheets and high dividend yields. The Fund will continue to add to share based investments where we are confident that they can maintain and grow their dividend yields and will generate a return premium relative to fixed income investments.

Disclosure of interest: Milford Staff have \$752,000 invested in the Fund at the 31 December unit price.

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[www.milfordasset.com](http://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
<b>Milford Income Fund</b>	+0.7%	+1.9%	+5.3%	+6.8%
<b>Benchmark (90 Day Bank Bill Index)</b>	+0.3%	+0.8%	+1.6%	+2.0%
<b>Over / Under Performance Benchmark</b>	+0.4%	+1.1%	+3.7%	+4.8%

## Income Fund Investment Breakdown

	31 December 2010	Neutral Allocation <sup>(1)</sup>	Gross yield <sup>(2)</sup>
<b>Fixed Income Securities</b>			
Fixed Income Rated	43.8%	40.0%	7.0%
Fixed Income Unrated <sup>(3)</sup>	30.3%	17.5%	8.9%
Global Fixed Income	0.0%	15.0%	-
	<b>74.1%</b>	<b>72.5%</b>	<b>7.8%</b>
<b>Equity Income Securities</b>			
NZ Property	5.1%	7.5%	9.2%
NZ Shares	8.5%	10.0%	9.5%
Australian Shares	9.0%	7.5%	9.5%
	<b>22.6%</b>	<b>25.0%</b>	<b>9.5%</b>
Cash	3.3%	2.5%	3.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>7.9%</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	4.9%	Restaurant Brands NZ	3.6%
BNZ June 2014	4.6%	Tower Limited	2.2%
Tower Capital April 2014	3.8%	Argosy Property Trust	1.7%
Kiwi Capital Securities May 2015	3.5%	Vital Healthcare Property Trust	1.2%
GPG November 2012	3.4%	Vector Ltd	1.2%
Greenstone Energy October 2016	2.9%	<b>Australian Shares</b>	<b>Percentage</b>
Goodman Fielder May 2016	2.9%	Transfield Infrastructure	2.3%
APN March 2016	2.9%	Cromwell Group	1.9%
Works Finance September 2012	2.5%	APA Group	1.8%
Works Finance June 2012	2.2%	Spark Infrastructure	1.5%
INFTL May 2011	2.3%	CFS Retail Property Placement	0.9%
Works Finance June 2012	2.0%		

