



# The Milford Income Fund

## Client Update

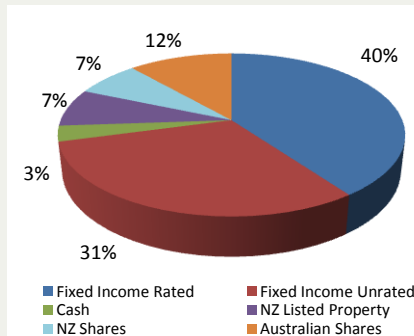
June 2011

### Portfolio Manager



Jonathan Windust CFA

### Portfolio Mix



### Key Fund Stats

Fund Size	\$45.3m
Unit Price	\$1.0636
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.

### 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

New Zealand economic data continued to improve over the month including strong business confidence and good employment data and a stabilisation in housing activity. In contrast Australian economic data was generally weaker than expected due to the impact of previous interest rate rises, a very strong currency and the Queensland floods. The economic divergence in the two economies led to a sharp 4.6% increase in the value of the \$NZ versus the \$A during the month.

The New Zealand share market index (NZX50 Gross) rose 0.8% during the month whilst the corporate grade fixed income index rose 0.7%. The New Zealand Property index rose strongly (+3.9%) benefiting from investors seeking yield given very low cash rates.

### Portfolio Review

The Milford Income Fund rose 1.3% (after all fees and before taxes) in May and is up 11.2% over the last year. The Fund benefited from positive performance from its share investments including Restaurant Brands (+7.2%), Vital Healthcare (+6.3%) and Argosy (+5.0%). Most shares benefited from investor demand for yield. Argosy benefited from a proposed internalisation of the management company and a merger proposal from DNZ. We believe internalisation is positive and should help move the company's share price closer to its underlying asset value. The rise in the Australian dollar detracted from performance. However, a large portion of the currency exposure was hedged at attractive rates limiting the performance impact.

During the month we added to holdings in equity income securities, including Mirvac an Australian property company. We believe that Mirvac is oversold due to concerns over its residential development business and is trading at an attractive discount to its Net Asset Value. Reflecting falls in interest rates the weighted average gross yield on the Fund's current investments fell to 7.7%. However, reflecting the strong performance of the Fund the distribution has been increased to 1.4c per quarter, up from 1.25c previously.

### Market Outlook and Investment Strategy

The outlook for the New Zealand economy has improved given strong export prices and an improvement in business confidence. However, we expect growth, and therefore inflation, will be relatively low due to high consumer debt levels and a preference to repay debt rather than spend. In this environment we expect interest rates to remain relatively low for an extended period. With yields on rated fixed income having fallen sharply the Fund continues to favour investments in companies with strong and growing dividend yields. Select unrated fixed income investments also offer an attractive return premium relative to their risk.

Disclosure of interest: Milford Staff have \$770,000 invested in the Fund at the 31 May 2011 unit price.

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

Milford Funds Limited



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

	Past Month	6 Months	1 Year	Inception 1 April 2010 (Annualised)
<b>Milford Income Fund</b>	+1.3%	+5.4%	+11.2%	+10.1%
<b>Benchmark (90 Day Bank Bill Index)</b>	+0.2%	+1.5%	+3.1%	+3.0%
<b>Over / Under Performance Benchmark</b>	+1.1%	+3.9%	+8.1%	+7.1%

## Income Fund Investment Breakdown

	31 May 2011	Neutral Allocation <sup>(1)</sup>	Gross yield <sup>(2)</sup>
<b>Fixed Income Securities</b>			
Fixed Income Rated	40.0%	40.0%	6.3%
Fixed Income Unrated <sup>(3)</sup>	30.8%	17.5%	8.5%
Global Fixed Income	0.0%	15.0%	
	<b>70.8%</b>	<b>72.5%</b>	<b>7.4%</b>
<b>Equity Income Securities</b>			
NZ Property	7.5%	7.5%	9.2%
NZ Shares	7.1%	10.0%	9.5%
Australian Shares	11.5%	7.5%	8.4%
	<b>26.1%</b>	<b>25.0%</b>	<b>8.9%</b>
Cash	3.1%	2.5%	2.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>7.7%</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
Genesis Energy July 2041	6.4%	Argosy Property Trust	2.7%
ANZ National Bank April 2013	5.0%	Restaurant Brands	2.7%
GPG November 2012	4.2%	Vital Healthcare	2.3%
Goodman Property September 2017	3.8%	Vector	1.8%
Kiwi Capital Securities May 2015	3.7%	Goodman Property Trust	1.5%
BNZ June 2014	3.4%	Tower Limited	1.1%
AMP April 2019	2.2%	<b>Australian Shares</b>	<b>Percentage</b>
Tower Capital April 2014	2.2%	Cromwell Group	2.7%
APN March 2016	2.2%	Spark Infrastructure	2.2%
Works Finance Limited	2.0%	Healthscope	2.1%
Greenstone Energy October 2016	2.0%	Goodman Plus Trust	2.1%
Goodman Fielder May 2016	1.7%	APA	1.8%

