



The Milford Income Fund

Client Update

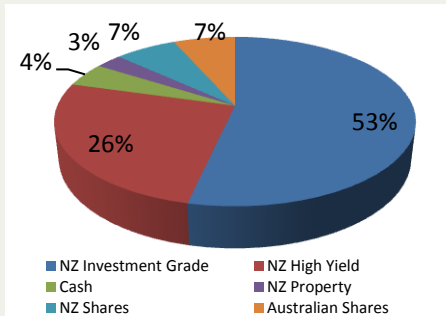
May 2010

Portfolio Manager



Jonathan Windust CFA

Portfolio Mix



Key Fund Stats

Fund Size	\$4.5 m
Unit Price	\$1.009
Yield ⁽¹⁾	7.8%
Forecast Quarterly Distribution	1c
Next distribution	25 Aug 2010
⁽¹⁾ Aggregate yield of Fund investments gross of fees and tax, assuming 30% tax rate.	

Fees

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

Investment Objective

The target is to exceed the 90-Day Bank Bill Index (after fees & before tax).

Economic and Market Review

Recent economic data has generally pointed to a further gradual recovery in economic growth. Key NZ economic data during the month included a sharp fall in unemployment of 6.0% from 7.1% and NZ business expectations of their own activity which is at the highest level since May 1999.

Yields on bonds fell during the month as investors favoured the security of fixed income investments. NZ company bonds also benefited from the lack of new issuance and rose 0.7% for the month. The budget as expected dealt a negative blow to property companies through the denial of depreciation on buildings. Combined with negative equity markets this resulted in the NZX property market falling 6.9%.

Portfolio Review

The Fund fell 0.1% during the month and was negatively impacted by its investment in income producing shares. Although the Fund held relatively small allocations to shares the size of market falls delivered the small negative return for the month.

During the month the Fund took advantage of falls in markets and improved valuations to increase its allocation to income generating shares to 18.0% from 10.8% as at the end of April. Share investments included investments in Australian infrastructure companies which have high and potentially growing dividend yields that are tax efficient for NZ investors. The forecast gross yield of the Fund (before fees and tax) as at 31 May was 7.8%. The yield was boosted by investments in high yielding share investments. The Fund has a relatively long average maturity in its fixed income investments reflecting attractive long-term interest rates.

Market Outlook and Investment Strategy

Improving NZ economic data has increased the probability that the RBNZ will increase rates at its June investment meeting. However, we believe that any rate rises will be gradual given the prospect for relatively low levels of global growth. Global growth is likely to be constrained as governments look to reduce spending and budget deficits. Accordingly, we continue to actively manage the portfolio and remain highly selective in share investments. Milford is cautious on NZ property investments given the prospect of rising vacancy and falling rents. We remain positive on fixed income investments within NZ as we believe that current longer-term rates are attractive in a low growth and inflation environment.

Disclosure of interest: Milford Staff have \$650,000 invested in the Fund at the 31 May unit price.

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Milford Funds Limited



Performance to 31 May 2010 (after fees and before tax)

	Past Month	Inception 31/3/2010
Milford Income Fund (after fees and before tax)	-0.1%	+0.6%
Benchmark (90 Day Bank Bill Index)	+0.2%	+0.4%
Over / Under Performance	-0.3%	+0.2%

Income Fund Investment Breakdown

	31 May-10	Neutral Allocation ⁽²⁾	Forecast Gross yield ⁽³⁾
Fixed Income Securities			
NZ Rated Bonds	53.5%	40.0%	7.1%
NZ Unrated Bonds	25.9%	15.0%	9.0%
Global Bonds	0.0%	17.5%	6.5%
Cash	4.6%	2.5%	2.5%
	84.0%	75.0%	7.4%
Equity Income Securities			
NZ Property	2.8%	7.5%	11.0%
NZ Shares	6.6%	10.0%	7.6%
Australian Shares	6.6%	7.5%	12.0%
	16.0%	25.0%	10.1%
Total	100.0%	100.0%	7.8%

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

(3) Forecast yield before tax assuming a 30% tax rate

Top Holdings

Fixed Income Securities		Equity Income Securities	
Fixed Income Security	Percentage	NZ Equity Income Security	Percentage
ANZ National Bank April 2014	4.9%	Restaurant Brands NZ	3.8%
Powerco March 2013	4.6%	Goodman Property Trust	2.8%
Works Finance (NZ) Ltd June 2012	4.6%	Tower Limited	2.2%
Kiwi Capital Securities May 2015	4.6%	Briscoes Group	0.4%
Auckland Airport February 2014	4.5%	Australian Equity Income Security	Percentage
Tower Capital April 2014	4.4%	Transfield Infrastructure	2.4%
SKY Television October 2016	4.4%	Mirvac Group	1.6%
Fletcher Building Finance May 2015	4.0%	Spark Infrastructure	1.5%
GPG Capital Notes November 2012	3.7%	SP AUSNET	1.2%
Goodman Property Trust June 2015	3.6%		
Fonterra March 2016	3.5%		
Westpac February 2017	3.5%		

