



The Milford Income Fund

Client Update

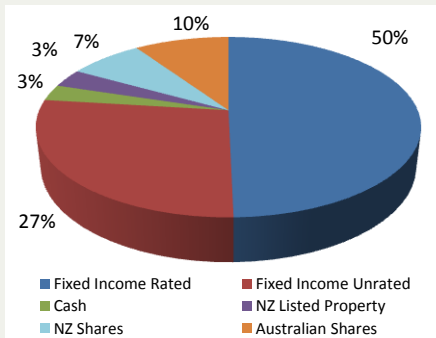
November 2010

Portfolio Manager



Jonathan Windust CFA

Portfolio Mix



Key Fund Stats

Fund Size	\$19.7m
Unit Price	\$1.0450
Yield of investments*	7.9%
Target Quarterly Distribution	1.25c
Next distribution	24 Nov 2010

* 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

New Zealand economic data released during October showed that economic activity remained subdued. New Zealand consumers remain cautious with a preference to repay debt rather than spend. Reflecting the low level of growth the RBNZ left the official cash rate at 3.0% although it stated that rates will probably need to rise in the future.

New Zealand fixed income market indices produced small negative returns in October as the yield on many investment grade bonds rose making existing investments less attractive. The NZ sharemarket and NZ property indices rose strongly during the month, up 4.0% and 4.8% respectively. Shares benefited from an improvement in investor confidence and high dividend yields relative to fixed income investments.

Portfolio Review

The Fund returned 1.2% during the month (after fees and before tax) and benefited from strong performance of share based investments. The Fund's holding in Restaurant Brands rose 9.5% following a strong half year result where it reported a 50% increase in earnings. We continue to believe Restaurant Brands offers good growth with relatively low risk and an attractive dividend yield. The Fund's investments in unrated fixed income investments also rose as investors recognised the attractiveness of the relatively high yields on offer.

The current aggregate yield of the Fund's investments (including tax credits) at the end of the month was 7.9%. Whilst the yields on many fixed income investments have fallen this has been offset by a greater weighting to share investments which offer higher yields. During the month high yield share and property investments were increased to just over 20% of the Fund.

Market Outlook and Investment Strategy

New Zealand interest rates are forecast to remain relatively low with the RBNZ not expected to increase the official cash rate until 2011 and subsequent rises likely to remain gradual. Accordingly, we believe longer dated fixed income investments remain attractive. We also believe the yield premium on selective unrated fixed income investments is attractive relative to their investment risk. We remain cautious on international fixed income markets due to high levels of sovereign debt and relatively low yields. Whilst the outlook for economies and share markets remains uncertain we believe many companies will produce good returns given their strong cash flows, balance sheets and high dividend yields. The Fund continues to maintain a highly diversified portfolio of over 50 investments.

Disclosure of interest: Milford Staff have \$755,000 invested in the Fund at the 31 October unit price.

Level 9, Shortland Chambers, 70 Shortland Street
PO Box 960, Shortland Street, Auckland
Telephone 09 921 4700 Facsimile 09 921 4709

Level 16, 157 Lambton Quay
PO Box 5191, Wellington
Telephone 04 915 9333 Facsimile 09 921 4709

Disclaimer: This Milford Fund Update has been prepared by Milford Funds Limited. It is based on information believed to be accurate and reliable although no guarantee can be given that this is the case. Clients of Milford Funds Limited may have an interest or holding in companies and securities mentioned in this report. No reproduction of any material either in part or in full is permitted without prior permission. For more information about the Fund please refer to the Milford Unit Trust PIE Investment Statement.

www.milfordasset.com

MilfordFundsLimited



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

	Past Month	Past 3 Months	Past 6 months	Inception 1 April 2010
Milford Income Fund	+1.2%	+3.8%	+5.3%	+6.1%
Benchmark (90 Day Bank Bill Index)	+0.2%	+0.8%	+1.5%	+1.7%
Over / Under Performance Benchmark	+1.0%	+3.0%	+3.8%	+4.4%

Income Fund Investment Breakdown

	31 October 2010	Neutral Allocation ⁽¹⁾	Gross yield ⁽²⁾
Fixed Income Securities			
Fixed Income Rated	49.7%	40.0%	6.7%
Fixed Income Unrated ⁽³⁾	27.3%	17.5%	8.7%
Global Fixed Income	0.0%	15.0%	
	77.0%	72.5%	7.4%
Equity Income Securities			
NZ Property	3.3%	7.5%	11.0%
NZ Shares	7.4%	10.0%	9.5%
Australian Shares	9.5%	7.5%	9.4%
	20.2%	25.0%	10.7%
Cash	2.8%	2.5%	2.5%
Total	100.0%	100.0%	7.9%

(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 low 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	5.1%	Restaurant Brands NZ	3.3%
Kiwi Capital Securities May 2015	4.3%	Argosy Property Trust	2.4%
BNZ June 2014	3.8%	Tower Limited	0.9%
Tower Capital April 2014	3.2%	Briscoes	0.9%
GPG November 2012	3.2%	Kiwi Income Property Trust	0.9%
INFTL May 2011	3.1%	Australian Shares	Percentage
Manukau City Council September 2017	2.6%	Cromwell Group	2.4%
Goodman Property Trust September 2017	2.5%	Transfield Infrastructure	2.1%
Works Finance June 2012	2.5%	Spark Infrastructure	2.0%
Southern Cross Airports January 2012	2.4%	APA Group	1.8%
Origin Energy (Perpetual Bond)	2.2%	CFS Retail Property Placement	0.5%
Trustpower December 2017	2.0%		

