



The Milford Income Fund

Client Update

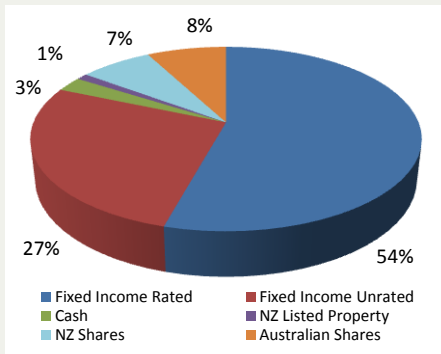
October 2010

Portfolio Manager



Jonathan Windust CFA

Portfolio Mix



Key Fund Stats

Fund Size	\$16.1m
Unit Price	\$1.0333
Yield of investments*	7.9%
Target Quarterly Distribution	1c
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

Economic data released during the month showed that the NZ economy grew only 0.2% in the quarter ending 30 June 2010. The Reserve Bank of New Zealand (RBNZ) left the cash rate unchanged at its September monetary policy statement and reduced its forecasts for economic growth and the rate of future interest rate rises. Similarly at the October announcement the RBA has indicated that it is holding off raising the OCR until it sees more data suggestive of inflation and stronger economic growth.

The New Zealand fixed indices produced modest returns of 0.4% during the month with yields on bonds ending the month largely unchanged. The New Zealand share market index rose 4.7% during the month benefiting from some positive international data and investors becoming less cautious. New Zealand listed property index rose strongly (up 4.0%) and was boosted by buying from index based funds.

Portfolio Review

The Fund returned 1.2 % during the month (after fees and before tax) benefiting from strong performance of share based investments. The Fund also benefited from a rise in the Australian dollar against the \$NZ and the decision to leave the Fund's currency exposure largely unhedged. Over the 6 months since inception the Fund has returned 4.9%.

The current yield being generated by the Fund (including imputation credits) at the end of the month increased to 7.9%. The yield rose as the Fund increased holdings in share investments and unrated fixed income investments which we believe offer an attractive return premium. The Fund's holdings in share based investments increased to 14.9% and we continue to focus on companies with high and sustainable dividend yields.

Market Outlook and Investment Strategy

NZ interest rates are forecast to remain relatively low with the RBNZ not expected to increase the official cash rate until 2011. The outlook for share markets in general remains uncertain due high levels of consumer and government debt in many developed economies. In this environment our strategy remains cautious and highly selective in terms of share based investments. The Fund remains highly diversified (50+ holdings) in companies and fixed income investments we believe offer attractive returns relative to their risk.

Disclosure of interest: Milford Staff have \$747,000 invested in the Fund at the 30 September unit price.

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www.milfordasset.com

MilfordFundsLimited



Performance to 30 September 2010 (after fees and before tax)

	Past Month	Past 3 Months	Past 6 months	Inception 1 April 2010
Milford Income Fund	+1.2%	+3.3%	+4.9%	+4.9%
Benchmark (90 Day Bank Bill Index)	+0.3%	+0.8%	+1.5%	+1.5%
Over / Under Performance Benchmark	+0.9%	2.5%	+3.6%	+3.6%

Income Fund Investment Breakdown

	30 September 2010	Neutral Allocation ⁽¹⁾	Gross yield ⁽²⁾
Fixed Income Securities			
Fixed Income Rated	54.3%	40.0%	6.9%
Fixed Income Unrated	27.1%	17.5%	9.2%
Global Fixed Income	0.0%	15.0%	0.0%
	81.4%	72.5%	7.7%
Equity Income Securities			
NZ Property	1.1%	7.5%	10.5%
NZ Shares	7.1%	10.0%	9.8%
Australian Shares	7.8%	7.5%	9.3%
	16.0%	25.0%	9.6%
Cash	2.6%	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.

Top Holdings

Fixed Income Investments		Shares Investments	
Fixed Income Security	Percentage	NZ Shares	Percentage
ANZ National Bank April 2013	5.6%	Restaurant Brands NZ	2.9%
Kiwi Capital Securities May 2015	4.3%	Tower Limited	1.6%
Tower Capital April 2014	3.9%	Kiwi Income Property Trust	1.1%
BNZ June 2014	3.4%	Turners Auctions	0.9%
Manukau City Council September 2017	3.2%	Pumpkin Patch	0.8%
GPG November 2012	3.2%	Australian Shares	Percentage
ITFL May 2011	3.1%	Cromwell Group	1.7%
Goodman Property Trust September 2017	3.1%	Transfield Infrastructure	1.5%
Works Finance June 2012	2.9%	Spark Infrastructure	1.4%
Southern Cross Airports January 2012	2.6%	APA Group	1.0%
Fletcher Building Finance March 2011	2.4%	CFS Retail Property Placement	0.7%
Contact Energy April 2017	2.4%		

