



The Milford Income Fund

Client Update

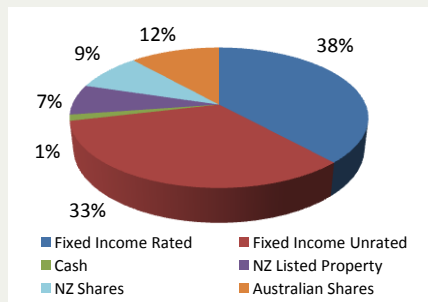
September 2011

Portfolio Manager



Jonathan Windust CFA

Portfolio Mix



Key Fund Stats

Fund Size	\$64.7m
Unit Price	\$1.0484
Yield of investments*	7.7%
Target Quarterly Distribution	1.4c
Next distribution	23 Nov 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 was generally positive during the month with a recovery in residential dwelling consents and good retail sales figures. However, global economic data continued to deteriorate which, combined the US debt downgrade and worries over European sovereign debt, led to significant falls and volatility in global share markets. The slowdown in global growth and financial market volatility has led most economists to push back their expectations for interest rate increases in this country from September until later in the year.

The New Zealand and Australian market indices followed global markets lower during the month falling 2.1% and 1.9% respectively during August. The New Zealand corporate A grade fixed income rose 1.1% during the month as investors looked for the security of fixed rates. The NZX listed property index fell 0.1%.

Portfolio Review

The Milford Income Fund rose 0.2% during the month. The Fund benefited from its holdings in Turners Auctions (+8.7%), Cromwell Property Group (+7.5%) and Vector (+6.3%). All three companies announced good annual results and dividends during the month. Turners Auctions announced a special dividend to take total dividends for the year to 17cents, equivalent to 11.4% of the current share price. Negatives for performance were Vital Healthcare (-4.3%), Restaurant Brands (-3.3%), and Argosy (-3.0%). During the month Argosy shareholders approved an internalisation of its management structure which we believe is positive as it will provide greater alignment of interest and lower costs going forward.

During the month the Fund took advantage of extreme market volatility to add to our holding in several shares including Mirvac, an Australian property company, which we believe had been oversold. Mirvac's shares ended up 24% from the levels at which we made these purchases. The Fund also added to several unrated fixed income securities which we believe offer attractive yields.

Market Outlook and Investment Strategy

The outlook for New Zealand generally remains robust supported by strong export prices and the Christchurch rebuild. However, the outlook for global markets has deteriorated due to slowing growth and government debt issues. Whilst well placed New Zealand is not immune to these factors and accordingly our strategy remains alert to these risks. The Fund continues to target attractive high yielding fixed income and dividend paying companies which we believe offer attractive returns relative to their risks.

Disclosure of interest: Milford Staff have \$759,000 invested in the Fund at the 31 August 2011 unit price.

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www.milfordasset.com

MilfordFundsLimited



Performance to 31 August 2011 (after fees and before tax)

	Past Month	6 Months	1 Year	Since Inception 1 April 2010 (Annualised)
Milford Income Fund	+0.2%	+3.8%	+7.8%	+8.1%
Benchmark (90 Day Bank Bill Index)	+0.3%	+1.4%	+3.0%	+3.0%
Over / Under Performance Benchmark	(0.1%)	+2.4%	+4.8%	+5.1%

Income Fund Investment Breakdown

	31 August 2011	Neutral Allocation ⁽¹⁾	Gross yield ⁽²⁾
Fixed Income Securities			
Fixed Income Rated	38.2%	40.0%	6.5%
Fixed Income Unrated ⁽³⁾	33.1%	17.5%	8.7%
Global Fixed Income	0.0%	15.0%	-
	71.3%	72.5%	7.6%
Equity Income Securities			
NZ Property	7.0%	7.5%	9.5%
NZ Shares	8.7%	10.0%	9.2%
Australian Shares	11.6%	7.5%	8.6%
	27.3%	25.0%	9.1%
Cash	1.4%	2.5%	2.5%
Total	100.0%	100.0%	7.7%

(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 Fund's 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		Share Investments	
Fixed Income Security	Percentage	NZ Shares	Percentage
Genesis Energy July 2016	7.1%	Restaurant Brands	2.6%
ANZ National Bank April 2013	6.1%	Argosy Property Trust	2.2%
GPG November 2012	4.2%	Vector	1.8%
Goodman Property September 2017	3.5%	Vital Healthcare Property Trust	1.6%
Z Energy August 2018	2.9%	Sky City	1.3%
Works Finance	2.6%	Kiwi Income property Trust	1.2%
Kiwi Capital Securities May 2015	2.5%	Australian Shares	Percentage
ASB June 2017	2.5%	Cromwell Group	3.3 %
BNZ June 2014	2.4%	Goodman Plus Trust	2.9%
APN March 2016	2.1%	Mirvac	2.2%
Telstra Corporation	1.9%	APA	2.1%
Trustpower December 2017	1.7%	Healthscope	2.0%

