



# The Milford Income Fund

## Fund Update

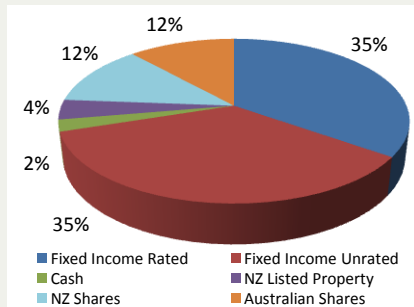
January 2012

### Portfolio Manager



Jonathan Windust CFA

### Portfolio Mix



### Key Fund Stats

Fund Size	\$98m
Unit Price	\$1.0647
Yield of investments*	8.3%
Target Quarterly Distribution	1.4c
Next distribution	22 Feb 2012

\* 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

Economic data showed that the New Zealand economy grew 0.8% in the third quarter of 2011 and 1.9% year on year. Growth was boosted by the Rugby World cup and manufacturing whilst the construction sector contracted. The Australian economy grew 1.0% during the third quarter boosted by strong business investment into the mining sector. The Reserve Bank of New Zealand left the official cash rate unchanged at 2.5% during the month citing moderate domestic demand but an unusual degree of global economic uncertainty. For the second meeting in a row the Reserve Bank of Australia cut the Australian cash rate by 0.25% to 4.25% citing the downside risks to Global and Australian growth.

Markets remained volatile during December due to uncertainty created by the European government debt crises. The New Zealand Share Market was relatively flat +0.1% whilst the NZ Property index and Australian share market fell (-1.2%) and (-1.6%) respectively. The New Zealand Fixed Income index rose 0.8% as investors continued to favour the certainty of fixed yields relative to uncertain equity returns.

### Portfolio Review

The Milford Income Fund rose 0.7% during the month (after fees but before tax). The major positives for performance were Spark Infrastructure +8.3%, Cromwell +6.5% and Duet +4.3%. These high dividend yield Australian shares benefited from the RBA's rate cut. Key negatives for performance were Mirvac -5.5%, Vital Health -5.2% and Vector -2.5%. Vital Health shares fell following a change in management rights which reduced the possibility of further takeover activity. During the month the Fund added to its holding in Chorus which was recently separated from Telecom. Chorus operates NZ's fixed line telephone network and is tasked with building 85% of NZ's ultra fast broadband network. We believe Chorus has an attractive dividend yield of above 8% after tax.

### Market Outlook and Investment Strategy

Share markets are likely to remain volatile given the high level of uncertainty surrounding Europe and slowing growth in Europe and China. We expect growth in New Zealand and Australia is likely to remain subdued as governments and consumers continue to repay debt. Accordingly, we expect interest rates to remain at low levels for an extended period. This environment is supportive for fixed income markets, however, this outlook is now largely priced in with the yields on longer dated highly rated debt falling to low levels. The good news is that the yield on some unrated debt securities and dividend paying companies remains high and attractive relative to the risk. Accordingly, the strategy of the Fund is to create a diversified portfolio of these higher yield companies to supplement the core rated fixed income investments. The Fund will also look to take advantage of market volatility and opportunities to buy and sell investments which are cheap or expensive relative to their risk.

Disclosure of interest: Milford Staff have \$1,151,000 invested in the Fund at the 31 December 2011 unit price.



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

	Past Month	6 Months	1 Year	Since Inception 1 April 2010 (p.a)
<b>Milford Income Fund</b>	+0.7%	+2.2%	+7.6%	+8.3%
<b>Benchmark (90 Day Bank Bill Index)</b>	+0.2%	+1.4%	+2.9%	+3.0%
<b>Over / Under Performance Benchmark</b>	+0.5%	+0.8%	+4.7%	+5.3%

## Income Fund Investment Breakdown

	31 December 2011	Neutral Allocation <sup>(1)</sup>	Gross yield <sup>(2)</sup>
<b>Fixed Income Securities</b>			
Fixed Income Rated	34.8%	40.0%	6.8%
Fixed Income Unrated <sup>(3)</sup>	35.2%	17.5%	9.2%
Global Fixed Income	0.0%	15.0%	
	<b>70.0%</b>	<b>72.5%</b>	<b>8.0%</b>
<b>Equity Income Securities</b>			
NZ Property	3.9%	7.5%	9.4%
NZ Shares	12.1%	10.0%	10.3%
Australian Shares	11.7%	7.5%	8.7%
	<b>27.7%</b>	<b>25.0%</b>	<b>9.5%</b>
Cash	2.3%	2.5%	2.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>8.3%</b>

(1) Indicative sector allocation if Milford believed each sector was fairly valued relative to its risk

(2) Weighted average yield of investments gross of fees and tax, but including tax credits and adjustments for PIE Property investments. 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
ANZ National Bank April 2013	5.3%	Chorus	3.2%
Gensis Energy July 2041	4.5%	Vector	1.8%
Contact Energy February 2042	3.7%	Argosy Property Trust	1.8%
IAG December 2036	3.4%	Restaurant Brands	1.7%
Goodman Property September 2017	3.2%	Telecom	1.7%
GPG November 2012	3.0%	Turners Auctions	1.2%
Z Energy August 2018	2.3%	<b>Australian Shares</b>	<b>Percentage</b>
Works Finance	2.2%	Cromwell Group	3.1%
Z Energy October 2016	1.7%	Mirvac	2.1%
Kiwi Capital Securities May 2015	1.7%	Spark Infrastructure	1.8%
ASB June 2017	1.6%	Goodman Plus Trust	1.7%
BNZ December 2018	1.4%	APA Group	1.6%

