



The Milford Income Fund

Fund Update

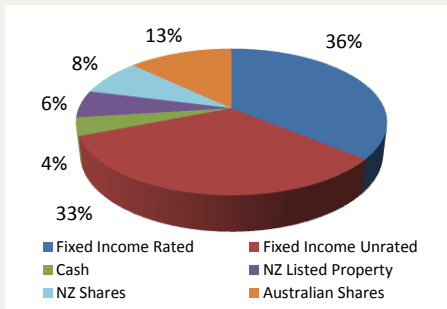
November 2011

Portfolio Manager



Jonathan Windust CFA

Portfolio Mix



Key Fund Stats

Fund Size	\$80.7m
Unit Price	\$1.0748
Yield of investments*	7.5%
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 released during the month generally pointed to a slowdown in the rate of growth. NZ Business confidence fell sharply and has likely been impacted by negative global headlines. The Reserve Bank of NZ left the official cash rate at 2.5% during the month citing the risk that the European sovereign debt crises could cause a slowdown in global economic growth. These risks combined with a lower than expected inflation figure led most economists to push back expected rate increases to the middle of 2012.

The Australian share market (ASX 200 Index) rose 7.2% (in \$A) during the month following an improvement in investor confidence as a result of the European package that was announced to try to resolve their debt issues. The NZ share market, property and fixed income indices were more subdued returning -0.3%, -0.7% and +0.1% respectively during the month. This underperformance reflected strong performance in recent months and investors' desire for more growth orientated investments.

Portfolio Review

The Milford Income Fund rose 1.3% during the month (after fees but before tax). Key positives for performance were Australian property companies Mirvac Group (+9.1%) and Stockland (+8.6%) whose share prices recovered from what we believed had been oversold levels. Investments in select unrated fixed income investments also performed strongly. Key negatives for performance were Telecom (-4.0%), Argosy (-2.4%) and Spark Infrastructure (-2.4%) none of which had material negative news.

During the month the Fund increased its holding in Australian shares reflecting our view of better value in this market. In particular we added a holding in DUET which operates gas pipelines and electricity distribution lines in Australia. At the time of purchase DUET generated a 10% (and growing) dividend yield. The Fund also added to holdings in unrated fixed income investments which we believe offer an attractive interest rate premium.

Market Outlook and Investment Strategy

The outlook for growth in the large developed economies of the world remains subdued as governments and consumers look to repay debt. Growth prospects in NZ should benefit from higher growth in Asia and the Christchurch rebuild although the extent and timing of this remains uncertain. Given a relatively slow growth and low inflation environment we expect interest rates will remain relatively low for some time. Accordingly the strategy of the Fund is to invest in longer dated fixed income investments which offer higher yields. We also continue to favour a diversified portfolio of select unrated fixed income securities and dividend paying companies which we believe offer attractive yields relative to the risk incurred.

Disclosure of interest: Milford Staff have \$1,161,000 invested in the Fund at the 31 October 2011 unit price.

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www.milfordasset.com

Milford Funds Limited



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

	Past Month	6 Months	1 Year	Since Inception 1 April 2010 (per annum)
Milford Income Fund	+1.3%	+3.8%	+8.0%	+9.0%
Benchmark (90 Day Bank Bill Index)	+0.2%	+1.4%	+3.0%	+3.0%
Over / Under Performance Benchmark	+1.1%	+2.4%	+5.0%	+6.0%

Income Fund Investment Breakdown

	31 October 2011	Neutral Allocation ⁽¹⁾	Gross yield ⁽²⁾
Fixed Income Securities			
Fixed Income Rated	35.9%	40.0%	6.1%
Fixed Income Unrated ⁽³⁾	32.6%	17.5%	8.6%
Global Fixed Income	0.0%	15.0%	0.0%
	68.5%	72.5%	7.3%
Equity Income Securities			
NZ Property	6.2%	7.5%	9.4%
NZ Shares	8.3%	10.0%	9.4%
Australian Shares	13.5%	7.5%	8.8%
	28.0%	25.0%	9.1%
Cash	3.5%	2.5%	2.5%
Total	100.0%	100.0%	7.5%

(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	5.9%	Argosy Property Trust	2.4%
Genesis Energy July 2016	5.8%	Restaurant Brands	2.1%
Goodman Property September 2017	3.8%	BNZ	1.8%
GPG November 2012	3.4%	Turners Auctions	1.5%
Works Finance	2.6%	Vector	1.5%
Z Energy August 2018	2.4%	Kiwi Income Property Trust	1.3%
Kiwi Capital Securities May 2015	2.1%	Australian Shares	Percentage
Z Energy August 2016	2.0%	Cromwell Group	3.3%
ASB June 2017	2.0%	Goodman Plus Trust	2.7%
APN March 2016	1.7%	APA	2.2%
Telstra Corporation	1.6%	Mirvac	2.0%
ANZ 2018	1.5%	Spark Infrastructure	1.8%

