



The Milford Income Fund

Client Update

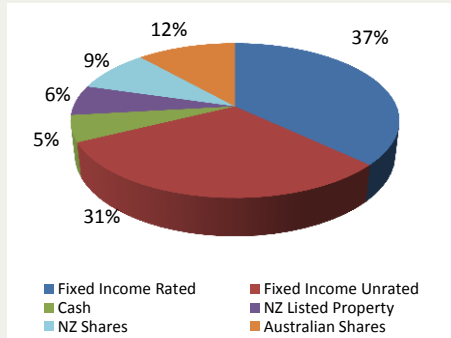
October 2011

Portfolio Manager



Jonathan Windust CFA

Portfolio Mix (as at 30/9/11)



Key Fund Stats

Fund Size	\$72.1m
Unit Price	\$1.0607
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 in September showed that the economy grew just 0.1% during the second quarter of 2011. However, forward looking business confidence remained positive despite a deteriorating outlook for global economic growth. In response to the weak global outlook the Reserve Bank of New Zealand left the official cash rate unchanged at 2.5% during the month. However, the RBNZ stated "that if recent global developments have only a mild impact on the New Zealand economy, it is likely that the OCR will need to increase".

The NZ share market bucked the global trend and rose 0.6% during the month whilst the Australian share market fell 6.1%. New Zealand fixed interest and property indices performed well (up 1.1% and 1.9% respectively) as investors favoured yield focussed investments.

Portfolio Review

The Milford Income Fund rose 1.2% during the month (after fees but before tax). Key positives for performance were Vector +5.7%, Vital Healthcare +4.5% and Telecom +3.9%. Vector benefited from the high court ruling supporting Vectors appeal against the Commerce Commission which argued for greater pricing certainty. Vital rose after ANZ's decision to purchase 9% of the company at \$1.20, a 7.1% premium to the market price. As part of this purchase ANZ decided not to proceed with internalising the management of the trust. Key negatives for performance were Restaurant Brands (-8.6%) and Tower (-6.1%). Restaurant Brands was negatively impacted by its second quarter sales results which reported sales down 6.5% on the previous year. Restaurant Brands' sales were negatively impacted by the Christchurch earthquake and some store closures.

During the month the Fund increased its holding in Turners Auctions taking advantage of a placement at a 15% discount to the market price. The Fund reduced its holding in Vital Healthcare as part of the ANZ transaction described above.

Market Outlook and Investment Strategy

The outlook for growth in developed economies is relatively subdued as governments and consumers look to repay debt. Whilst the NZ economy currently looks well placed slowing global growth is likely to impact as demand for our exports decreases. The slowing growth environment has led to sharp falls in longer dated NZ interest rates, particularly for higher rated investments. Whilst NZ's rates are low relative to history we expect rates will remain low for some time. However, the fund continues to find attractive opportunities in higher yielding fixed income and dividend paying companies. Accordingly the Fund will continue to bias investment toward these sectors.

Disclosure of interest: Milford Staff have \$1,146,000 invested in the Fund at the 30 September 2011 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

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MilfordFundsLimited



October 2011**Milford Income Fund Client****Performance to 30 September 2011 (after fees and before tax)**

	Past Month	6 Months	1 Year	Since Inception 1 April 2010 (per annum)
Milford Income Fund	+1.2%	+3.6%	+7.8%	+8.5%
Benchmark (90 Day Bank Bill Index)	+0.3%	+1.4%	+3.0%	+3.0%
Over / Under Performance Benchmark	+0.9%	+2.2%	+4.8%	+5.5%

Income Fund Investment Breakdown

	31 September 2011	Neutral Allocation ⁽¹⁾	Gross yield ⁽²⁾
Fixed Income Securities			
Fixed Income Rated	37.0%	40.0%	6.3%
Fixed Income Unrated ⁽³⁾	30.7%	17.5%	8.6%
Global Fixed Income	0.0%	15.0%	0.0%
	67.7%	72.5%	7.4%
Equity Income Securities			
NZ Property	6.3%	7.5%	9.4%
NZ Shares	8.9%	10.0%	9.8%
Australian Shares	11.6%	7.5%	9.0%
	26.8%	25.0%	9.3%
Cash	5.5%	2.5%	2.5%
Total	100.0%	100.0%	7.5%

(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	6.8%	Argosy Property Trust	2.4%
ANZ National Bank April 2013	6.5%	Restaurant Brands	2.4%
GPG November 2012	3.8%	Turners Auctions	1.7%
Goodman Property September 2017	3.3%	Vector	1.6%
Works Finance	2.8%	Quayside Holdings	1.2%
Z Energy August 2018	2.6%	Kiwi Income Property Trust	1.1%
Kiwi Capital Securities May 2015	2.3%	Australian Shares	Percentage
ASB June 2017	2.2%	Cromwell Group	3.0%
BNZ June 2014	2.1%	Goodman Plus Trust	2.6%
APN March 2016	1.9%	APA	2.2%
Telstra Corporation	1.8%	Mirvac	2.0%
Trustpower December 2017	1.5%	Spark Infrastructure	1.9%

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