



The Milford Balanced KiwiSaver Fund

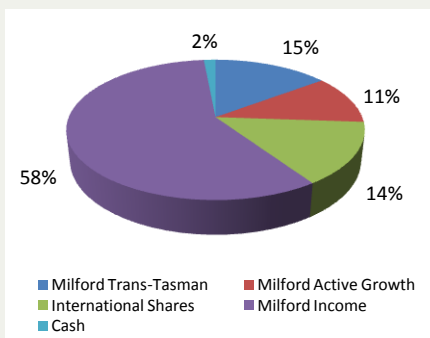
Fund Update

January 2012

Portfolio Manager

Milford's Investment Committee

Portfolio Mix



Fund Size

\$3.3 million at 31/12/2011

Fees

1.05% capped annual fee. To the extent that assets of the Milford Balanced Fund are invested in any other Milford Funds the Balanced Fund will be fully rebated for the management fees charged within those Funds. However, any performance fee charged by Milford in respect of those Funds will remain payable.

Investment Objective

The Fund's target is to achieve capital growth over time by holding a diversified investment portfolio including New Zealand and overseas cash, bonds and shares.

Economic and Market Review

Economic data showed that the New Zealand economy grew 0.8% in the third quarter and was boosted by the Rugby World Cup. Global economic data continued to show a mixed picture with slowing growth in Europe, and China offset by relatively strong growth in the United States. Central Banks in Australia and Europe acted to support growth during the month by reducing interest rates. The Reserve Bank of New Zealand left rates unchanged at 2.5% during the month and cited unusually uncertain global economic conditions.

Share markets remained volatile but ended the month at similar levels with the NZX50 and World Share market index (in \$NZ) returning 0.1% and 0.2% respectively. Reflecting better economic data the US share market outperformed whilst Europe was weak. Investors continued to focus upon European government debt levels and plans by European policy makers to reduce debt and restore confidence. The New Zealand Fixed Income index rose 0.8% as investors continue to favour the certainty of fixed yields relative to uncertain equity returns.

Portfolio Review

The Milford Balanced Fund rose 0.2% during the month (after fees and before tax). The Fund benefited from the good performance of the Income Fund +0.7% and was negatively impacted by share market investments.

The Funds exposure to growth funds ended the month at 40.5% similar to the previous month. The allocation to growth funds remains significantly below the 60% target that the Fund would adopt in more normal markets and the level of many other balanced funds in the market. In the current uncertain economic and market environment the Fund continues to favour investment into the Milford Income Fund which we believe has an attractive combination of steady fixed income investments and higher yielding shares which should be less impacted by the economic environment.

Market Outlook and Investment Strategy

The outlook for markets remains uncertain given the problems surrounding high levels of government debt in Europe and the US. In Europe the approach to reduce debt by cutting government spending in an already weak economy is likely to lead to a sharp reduction in growth in 2012. Whilst the US approach to continue spending and running deficits has helped growth in the short term the issues remain. The good news is that the markets already know the bad news and the valuation of companies is very attractive particularly relative to very low interest rates. Given these opposing forces we expect markets to remain volatile and provide opportunities for active management. The investment strategy of the Fund is to remain defensive (biased toward income investments) and to take advantage of market volatility to increase or decrease the exposure to share markets as opportunities arise. The Fund's strategy is to have a relatively high weighting to New Zealand, Australia and Asia which we believe are well positioned relative to US and Europe due to lower levels of government debt and the ability to reduce interest rates if necessary to help boost growth.

Disclosure of interest: Milford staff have \$105,000 invested in the Balanced KiwiSaver Fund at the 31 December 2011 unit price.

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www.milfordasset.com

Milford Funds Limited



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

	1 Month	6 Months	1 Year	Since Inception 1 April 2010 (p.a)
Milford Balanced Fund	+0.2%	(0.5%)	+1.3%	+2.4%

*other than \$36p.a registry fee

Market Returns by Investment Sector

Sector	1 month	Past 1 Year	Index
NZ shares	(0.1%)	(1.0%)	NZX50 Gross Index
Australian shares (\$NZ)	(1.6%)	(10.4%)	ASX 200 Gross Index in \$NZ
Global shares (\$NZ)	+0.2%	(7.1%)	MSCI World Index in \$NZ
NZ Property	(1.2%)	+11.2%	NZX Property Index
NZ Bonds	+0.8%	+9.3%	NZX Corporate A Index
NZ Cash	+0.2%	+2.6%	NZX Cash Index

Investment Holdings

	31 December 2011	Neutral*
Milford Trans-Tasman Fund	14.8%	15.0%
Milford Active Growth Fund	11.3%	15.0%
International Share Funds	14.4%	30.0%
Total Growth	40.5%	60.0%
Milford Income Fund	58.0%	37.5%
Cash	1.5%	2.5%
Total Income	59.5%	40.0%
Total Fund	100.0%	100.0%

*Indicative sector allocation if Milford believed each sector was fairly valued

