

Diversified Income Fund

Portfolio Investment Entity

Monthly Fact Sheet as at 31 December 2022



Portfolio Managers



Paul Morris
Portfolio Manager



Dan Simmonds
Co-Portfolio Manager

Irrespective of broad-based weakness across bond and share markets, the Fund finished the month close to flat (0.2%). Unfortunately, the one year return remains negative at -2.8%. However, given the historically large fall in bond and share prices over the past year, the Fund's cautious positioning did provide a significant cushion for returns. Looking forward, we reiterate that the painful reset lower in market valuations we have traversed means the medium term return outlook is more favourable. That said, near term our expectation remains for choppy markets to continue until we get further certainty on the evolution of inflation, where market interest rates will therefore settle, and what impact this will have on economic growth and company earnings.

December saw market interest rates reset higher. What had been building hope for less aggressive monetary policy tightening was somewhat quashed as myriad central banks reiterated their hawkish intentions. While evidence continues to build that inflation may be peaking, employment remains tight and risks are that inflation may prove stubbornly elevated. The Fund's lower than normal exposure to market interest rates did limit the negative return impact, and ongoing outperformance of its corporate bonds relative to government bonds helped (the latter more directly sensitive to the path of policy cash rates).

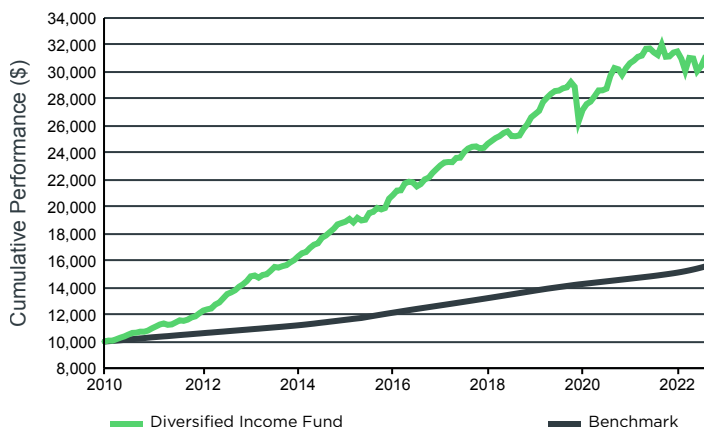
Most of the share markets into which the Fund invests were weaker over the month on higher market interest rates, and on concern earnings will fall as tighter monetary policy impacts economic growth. A notable exception was NZ electricity companies which were stronger, including Contact Energy (the Fund's largest share exposure) which was up 2.9%. The Fund also benefitted from a strong showing from Spark (+4.9%) and its UK bank exposures (e.g. Virgin Money +7.9%) which have benefitted from higher interest rates. Higher market interest rates weighed on income shares, albeit the Fund has a much lower allocation here than historically. Global and Australasian property was weak (e.g. Goodman Group -8.4%), while global infrastructure share prices were also under pressure (the global infrastructure index falling more than 3%).

Looking ahead, we will retain the Fund's more conservative positioning until we get some certainty that the foundations are in place for a sustained recovery in risk appetite. This means less shares than would be historically normal until we get confidence that (i) inflation is falling sufficiently for central bank policy rates to peak and (ii) share valuations have adjusted to a likely lower earnings profile as economic growth slows. Instead, we will hold more cash where the return is now more reasonable. We will also look to continue to deploy opportunistically into corporate bonds, with a focus on shorter-dated bonds, where we believe many offer returns which look attractive versus shares. We continue to repeat recent messaging that the outlook for medium term returns has improved, but with the caveat that near term volatility is likely to remain elevated. Active management and our ongoing cautious positioning should enable us to best navigate these risks.

To view Milford's January 2023 Market and Economic Review please see milfordasset.com/investor-centre.

Cumulative Fund Performance

(after fees and before tax)



Assumes the growth of \$10,000 invested at the Fund's inception date, and assumes reinvestment of distribution.

Key Fund Facts

Objective¹	To provide income and capital growth over the minimum recommended investment timeframe
Description	Diversified fund that primarily invests in fixed interest and equity income-generating securities

Minimum recommended investment timeframe	4 years +
Target Allocation	60% Income Assets / 40% Growth Assets
Neutral FX Exposure	0%
Net Asset Value (NAV)	\$2,776.3 M
Yield²	6.27%
Average Credit Rating	BBB
Duration	0.86 years
Buy-sell Spread	None - swing pricing applies (See PDS for details)
Inception Date	1 April 2010
Current Distribution	1.1 cents per unit (Quarterly)
Benchmark	OCR + 2.5% p.a.
Base Fund Fee³	0.65%
Performance Fee	10% of the Fund's returns above the Benchmark ¹ , subject to the high watermark.
Total Fund Fees⁴	0.85% (includes an est. performance fee)

	Lower risk					Higher risk	
Risk Indicator	1	2	3	4	5	6	7
	Potentially lower returns				Potentially higher returns		



Diversified Income Fund as at 31 December 2022

Investment Performance after fees as at 31 December 2022⁵

Unit Price: \$1.8205

	1 Month	3 Months	1 year	3 years (p.a.)	5 years (p.a.)	Since inception (p.a.)
Milford Diversified Income Fund (Gross Of Tax)	0.17%	3.53%	-2.80%	2.55%	4.95%	9.31%
After Tax 10.50%	0.06%	3.34%	-2.83%	2.33%	4.61%	8.68%
After Tax 17.50%	-0.01%	3.22%	-2.86%	2.17%	4.39%	8.27%
After Tax 28.00%	-0.11%	3.03%	-2.90%	1.95%	4.06%	7.66%
Benchmark	0.56%	1.55%	4.74%	3.49%	3.72%	3.57%

Top Equity Holdings

Holdings	% of Fund
Contact Energy	2.15%
Origin Energy	1.67%
Telstra	1.62%
Getlink	1.53%
Ameren	1.46%
Goodman	1.40%
Spark	1.26%
Transurban	1.11%
Elevance Health	1.01%
Santos	1.00%

Current Asset Allocation

	Actual Investment Mix	Neutral Investment Mix
Effective Cash #	18.67%	5%
New Zealand Fixed Interest	10.59%	10%
International Fixed Interest	41.01%	45.0%
New Zealand Equities	4.63%	6.5%
Australian Equities	7.38%	10%
International Equities	7.99%	5%
Listed Property	7.54%	18.5%
Other	2.19%	0.0%

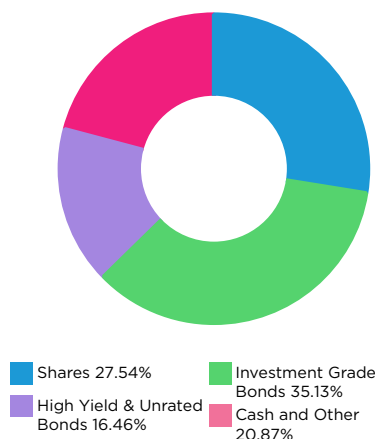
The actual cash held by the Fund is 3.79%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Top Fixed Interest Holdings

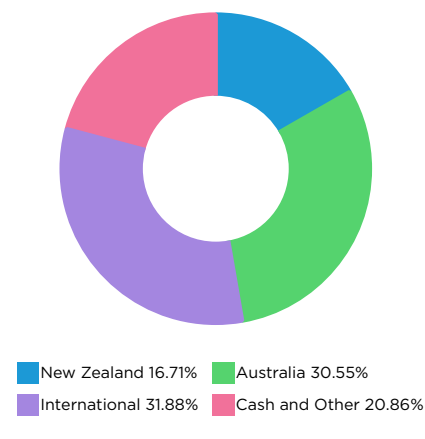
Holdings	% of Fund
NZGBI 2% 2025	3.24%
Scentre Group 5.125% 2080	1.04%
CBA 6.86 2032	1.01%
NBN Co 4.75% 2026	0.98%
Deutsche Bank 4% 2032	0.87%
NZGB 2.5% 2035	0.85%
CBA Float 2031	0.83%
Westpac 6.19% 2032	0.80%
Voyage Float 2029	0.74%
NatWest 5.125% Perpetual	0.74%

Note: Fixed interest securities are reported in the following format: Issuer name, interest (coupon rate), maturity year.

Fund Portfolio Mix



Region Exposure



1. After the base fund fee but before tax and before the performance fee. 2. Yield to maturity (before tax and fees) for underlying investments in the Fund. 3. Where applicable, the Base Fund Fee includes an estimate of non-related underlying fund charges. 4. The Total Fund Fees comprise the Base Fund Fee and any estimated Performance Fee. Please refer to the Product Disclosure Statement for more information as to how these are calculated. 5. Includes the reinvestment of distributions. Please note past performance is not a guarantee of future returns.

Please refer to the 'Glossary for the Monthly Fact Sheet' at milfordasset.com/fact-sheet for more information about the data published within this document.

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