

# Diversified Income Fund

## Portfolio Investment Entity

Monthly Fact Sheet as at 28 February 2023



### Portfolio Managers



**Paul Morris**  
Portfolio Manager



**Dan Simmonds**  
Co-Portfolio Manager

In February, bond and share markets handed back some of the gains posted in January. The Fund's defensive positioning (fewer shares, less interest rate exposure, and more cash) protected it from much of this retrenchment to deliver a modest 0.2% gain in the month. The dominant theme in February was a move back higher in market interest rates. This was attributable to incoming data suggesting central banks may need to raise interest rates higher than previously feared, as inflation remains stubbornly high. It resulted in 10-year government bond yields in the US and NZ increasing by more than 0.4 percentage points in the month.

The Fund's bonds were at the coal face of this interest rate move. A lower than long-run neutral exposure to interest rates helped cushion returns, however prices were lower across the board on the rise in yields. Performance versus government bonds was mixed, albeit after stand-out recent strength there was more pronounced weakness in the Fund's bank subordinated bonds. Importantly, cognisant of where valuations had reached, we had already commenced trimming some of these holdings and that continued during February.

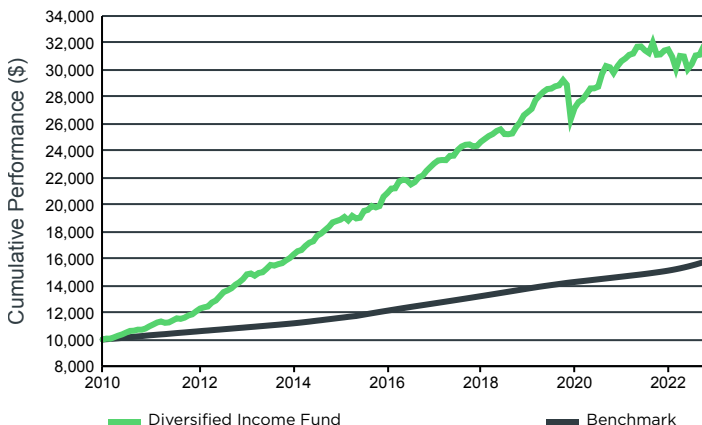
In aggregate the contribution from the Fund's shares was close to flat over the month, even as many of the broad markets into which it invests were weaker. Notable positive contributions did come from its Australian shares, including Computershare (+5.7%) which benefits from higher interest rates and Origin Energy (+10.4%) which is closer to being taken over by an international consortium. Performance from the listed property holdings was disparate. There were small gains from NZ holdings, e.g. Precinct Properties (+6.0%) compared to weakness in many of the Australian and global holdings, e.g. Australian property fund manager Charter Hall (-3.3%). Global infrastructure was mixed, with utilities lower on higher interest rates, but several of the Fund's road and airport shares performed well post reporting results, e.g. Spanish airport operator Aena (+6.5%).

Looking ahead medium term, we think the return outlook for the Fund is appealing, but we continue to anticipate near-term volatility in both bonds and shares. February illustrated this. While we reiterate an expectation that market interest rates may be approaching fair value, we wait for this to be substantiated by economic data and central bank actions. This requires inflation to fall. We therefore remain patiently defensively positioned. We plan to slowly increase the Fund's exposure to interest rates on evidence of lower inflation and slower growth. We remain wary of adding further to shares until we get more comfort on the earnings outlook, or if valuations adjust lower to reflect (i) the earnings risk associated with slower economic growth and (ii) the recent move higher in interest rates. While we have been trimming the corporate bond exposure, we still think they offer a better return outlook versus government bonds and shares, with prevailing yields providing a cushion against all but extremely higher yields.

To view Milford's March 2023 Market and Economic Review please see [milfordasset.com/investor-centre](https://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

**Objective<sup>1</sup>** 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

<b>Minimum recommended investment timeframe</b>	4 years +
<b>Target Allocation</b>	60% Income Assets / 40% Growth Assets
<b>Neutral FX Exposure</b>	0%
<b>Net Asset Value (NAV)</b>	\$2,824.4 M
<b>Yield<sup>2</sup></b>	6.51%
<b>Average Credit Rating</b>	BBB
<b>Duration</b>	0.85 years
<b>Buy-sell Spread</b>	None - swing pricing applies (See PDS for details)
<b>Inception Date</b>	1 April 2010
<b>Current Distribution</b>	1.45 cents per unit (Quarterly)
<b>Benchmark</b>	OCR + 2.5% p.a.
<b>Base Fund Fee<sup>3</sup></b>	0.65%
<b>Performance Fee</b>	10% of the Fund's returns above the Benchmark <sup>1</sup> , subject to the high watermark.
<b>Total Fund Fees<sup>4</sup></b>	0.85% (includes an est. performance fee)

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

## Diversified Income Fund as at 28 February 2023

### Investment Performance after fees as at 28 February 2023<sup>5</sup>

Unit Price: \$1.8443

	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%	2.30%	2.03%	3.22%	5.49%	9.37%
After Tax 10.50%	0.17%	2.08%	1.80%	2.99%	5.16%	8.74%
After Tax 17.50%	0.17%	1.94%	1.65%	2.83%	4.94%	8.32%
After Tax 28.00%	0.17%	1.72%	1.42%	2.59%	4.62%	7.71%
Benchmark	0.51%	1.63%	5.31%	3.67%	3.80%	3.61%

### Top Equity Holdings

Holdings	% of Fund
Contact Energy	2.11%
Ameren	1.92%
Telstra	1.83%
Origin Energy	1.70%
Goodman	1.62%
Getlink	1.62%
Spark	1.53%
Cheniere Energy	1.27%
Transurban	1.22%
Santos	0.99%

### Current Asset Allocation

	Actual Investment Mix	Neutral Investment Mix
Effective Cash #	20.77%	5%
New Zealand Fixed Interest	10.22%	10%
International Fixed Interest	39.64%	45.0%
New Zealand Equities	4.78%	6.5%
Australian Equities	8.79%	10%
International Equities	7.68%	5%
Listed Property	8.12%	18.5%
Other	0.00%	0.0%

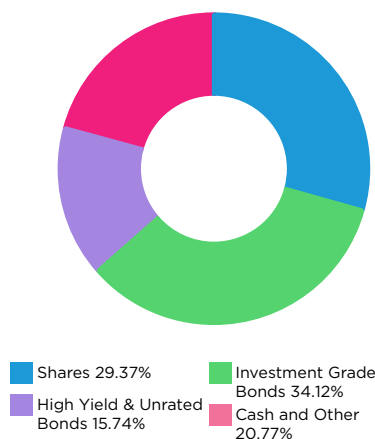
# The actual cash held by the Fund is 3.81%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

### Top Fixed Interest Holdings

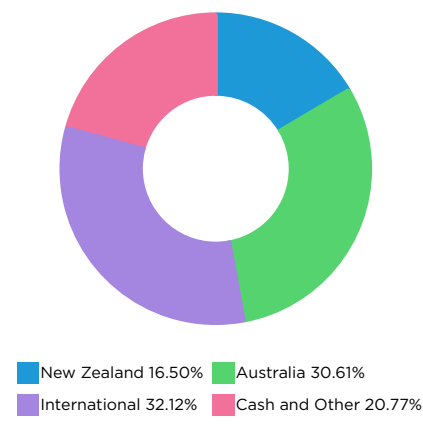
Holdings	% of Fund
NZGBI 2% 2025	3.25%
CBA 5% 2028	1.13%
Scentre Group 5.125% 2080	1.10%
Deutsche Bank 4% 2032	0.89%
NZGBI 2% 2035	0.84%
CBA Float 2031	0.81%
NatWest 5.125% Perpetual	0.77%
Holcim 0.5% 2030	0.75%
Voyage Float 2029	0.74%
Virgin Money 4.625% 2028	0.73%

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](http://milfordasset.com/fact-sheet) for more information about the data published within this document.

Disclaimer: The Milford Fund Fact Sheet has been prepared by Milford Funds Limited. It is based on information believed to be accurate and reliable although no guarantee can be given that this is the case. No reproduction of any material either in part or in full is permitted without prior permission. For more information about the Fund, please refer to the Production Disclosure Statement or the latest Quarterly Fund Update.