

Diversified Income Fund

Portfolio Investment Entity

Monthly Fact Sheet as at 31 May 2023



Portfolio Managers



Paul Morris
Portfolio Manager



Dan Simmonds
Co-Portfolio Manager

Ongoing choppiness in bonds and shares continued, given uncertainty as to how close we are to the end of the economic cycle. Global data provided mixed signals, but with sufficient evidence to suggest inflation risks may require tighter and/or more prolonged monetary policy tightening. The reaction was higher market interest rates, albeit not back to levels earlier this year. This headwind for bonds and income shares translated to a negative return of 0.7% in the month. Nonetheless, considering valuations and yields of the Fund's bonds and shares, the medium-term return outlook remains favourable.

Bonds contributed a small negative aggregate return in May. Many prices fell on higher market interest rates, but this was partially offset by (i) earning what are now historically attractive bond yields and (ii) strength in global subordinated bonds. The latter outperformed the broader market, further recovering from the Credit Suisse fallout. We have continued to add bonds where we see attractive risk adjusted returns, while trimming those where the return outlook is less attractive. In May, we added a senior Euro bond from Crown (global packaging) and a subordinated Euro bond from Vodafone (European telco) at NZ dollar-equivalent hedged annual yields of approximately 7.3% and 8.8% respectively.

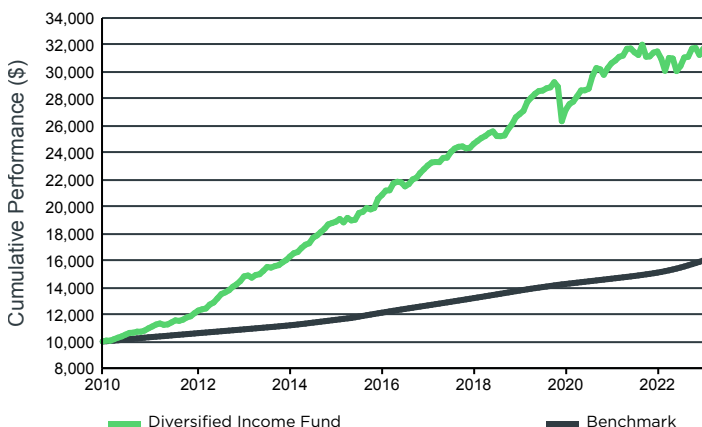
Shares contributed a moderate negative aggregate return. Income-oriented shares were challenged by higher market interest rates, best illustrated by weakness in global utilities and infrastructure, e.g. US electricity utility Ameren (-8.9%). There were also price falls in high-quality defensive exposures such as healthcare, e.g. US hospital operator HCA (-8.1%) and in our inflation hedge cyclical exposures, especially energy related shares e.g. Shell (-8.8%). Rare bright spots were limited to flattish months for NZ property and utilities, and Infratil which posted a 6.5% gain after encouraging results. NZ shares were, to some extent helped by indications from the Reserve Bank of NZ that it may have reached the end of its rate hiking cycle.

The global rate hiking cycle may not be finished but is arguably close to an end. Bond yields should provide a reasonable return cushion even if more hikes are needed. We remain comfortable to hold close to a long run average bond exposure. Broad share market valuations may not be cheap, but for some income shares a confirmation of peak interest rates should provide support. We remain defensively positioned in terms of share exposure, wary of adding more shares until we get comfort on the earnings and rates outlook, or if valuations adjust lower to reflect these risks. The medium-term return outlook continues to look appealing, but patience is key as the risk remains for further near-term volatility.

To view Milford's May 2023 Market and Economic Review please see milfordasset.com/insights.

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)	\$2,749.9 M
Yield²	6.59%
Average Credit Rating	BBB+
Duration	1.34 years
Buy-sell Spread	None - swing pricing applies (See PDS for details)
Inception Date	1 April 2010
Current Distribution	1.45 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 May 2023

Investment Performance after fees as at 31 May 2023⁵

Unit Price: \$1.8115

	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)	-0.72%	-0.94%	1.64%	4.47%	4.82%	9.10%
After Tax 10.50%	-0.73%	-0.88%	1.41%	4.26%	4.51%	8.49%
After Tax 17.50%	-0.74%	-0.84%	1.25%	4.12%	4.31%	8.08%
After Tax 28.00%	-0.74%	-0.79%	1.01%	3.91%	4.00%	7.49%
Benchmark	0.64%	1.86%	6.26%	4.06%	3.97%	3.69%

Top Equity Holdings

Holdings	% of Fund
Contact Energy	2.16%
Ameren	2.07%
APA	1.70%
Spark	1.67%
Telstra	1.57%
Getlink	1.42%
Goodman	1.36%
Transurban	1.30%
Cheniere Energy	1.20%
Elevance Health	0.96%

Current Asset Allocation

	Actual Investment Mix	Neutral Investment Mix
Effective Cash #	18.29%	5%
New Zealand Fixed Interest	12.73%	10%
International Fixed Interest	40.00%	45.0%
New Zealand Equities	5.17%	6.5%
Australian Equities	6.00%	10%
International Equities	10.23%	5%
Listed Property	7.58%	18.5%
Other	0.00%	0.0%

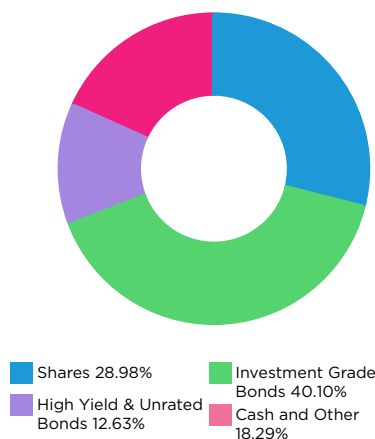
The actual cash held by the Fund is 3.12%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Top Fixed Interest Holdings

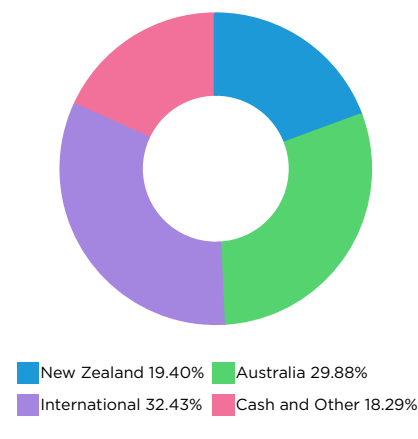
Holdings	% of Fund
NZGBI 2% 2025	4.79%
CBA 5% 2028	1.13%
Scentre Group 5.125% 2080	1.12%
ANZ Float 2033	1.08%
TESAG 4.9% 2028	1.01%
NZGBI 2% 2035	0.90%
NBS 5.35% 2028	0.83%
Holcim 0.5% 2030	0.83%
Voyage Float 2029	0.78%
BNP Paribas 5.75% 2032	0.77%

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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