

Diversified Income Fund

Portfolio Investment Entity

Monthly Fact Sheet as at 31 October 2023



Portfolio Managers



Paul Morris
Portfolio Manager



Dan Simmonds
Co-Portfolio Manager

Bonds and share valuations generally continued to adjust lower to the reality that market interest rates are likely to remain higher for longer, unlikely to fall back to the post Global Financial Crisis central bank distorted lows. Over the past couple of years this valuation adjustment, due to a generational move higher in interest rates, has held back Fund returns, even if we have cushioned the Fund from much of this. Looking forward, however, we believe investor patience is close to being rewarded as historically attractive bond yields should underpin medium and long-term Fund returns. In October, the Fund fell 1.0%.

While rate cuts may be delayed, central banks may not need to hike (much) further as economies slow. This has supported shorter-dated bonds, but longer-dated bond prices continue to fall, reflecting the growing reality that interest rates are likely to remain higher for longer. We had further reduced the Fund's interest rate exposure, wary of this risk, which provided some mitigation. We continue to believe the lagged impact of higher interest rates on economies is longer in this cycle, but that rate hike effects are increasingly feeding through. We will start adding back interest rate exposure once we see evidence of an economic growth slowdown or faster disinflation. We are, however, still investing in bonds with lower interest rate exposure and yields which offer a generous buffer against a move higher in market interest rates. Examples this month included AU dollar Woolworths senior bonds and Commonwealth Bank of Australia subordinated bonds at NZ dollar equivalent yields in the mid and high seven percents respectively.

Broad share markets continued to weaken in October, further adjusting to the higher interest rate environment. Third quarter company reporting has generally been fine, but concerns remain for earnings risks into next year. The market weakness has remained pronounced in income-oriented shares such as property, utilities and infrastructure, albeit there were pockets of resilience, e.g. UK water utilities such as Pennon (+24.0%) given many valuations had already been hit hard. We remain cautiously positioned with less shares than our long run neutral, which provided some return cushion. We further trimmed exposure during the month, focused on shares where valuation risk remains more elevated, wary of the impact from higher interest rates on valuations and earnings.

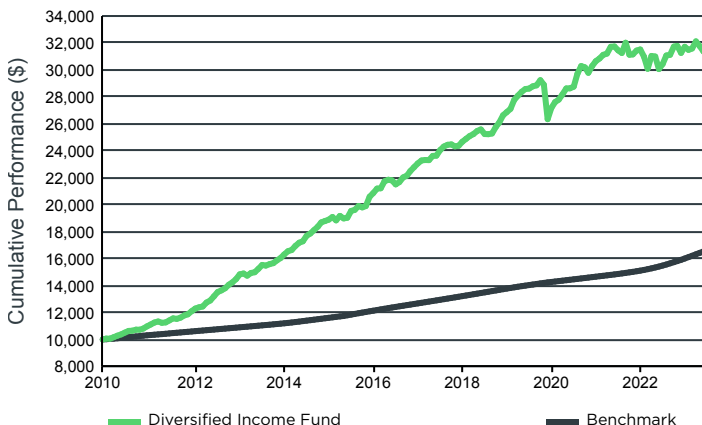
Weakness in shares leaves many of the Fund's holdings with some valuation support, but we will remain defensively positioned in terms of aggregate share exposure for now. Our preference remains to have a larger allocation to bonds at the expense of this smaller share exposure. While prevailing cash rates are historically attractive, we think corporate bonds offer a better return outlook, with an income stream which should be materially higher than any fall in bond prices from this point on.

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

For previous fund reports see milfordasset.com/fund-reports.

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)	\$2,546.4 M
Yield²	6.48%
Average Credit Rating	BBB+
Duration	1.2 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 October 2023

Investment Performance after fees as at 31 October 2023⁵

Unit Price: \$1.7723

	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)	-0.96%	-3.24%	2.11%	2.62%	4.25%	8.70%
After Tax 10.50%	-0.95%	-3.28%	1.70%	2.47%	3.94%	8.10%
After Tax 17.50%	-0.94%	-3.30%	1.43%	2.36%	3.74%	7.70%
After Tax 28.00%	-0.93%	-3.34%	1.03%	2.21%	3.43%	7.12%
Benchmark	0.66%	1.96%	7.44%	4.78%	4.27%	3.82%

Top Equity Holdings

Holdings	% of Fund
Contact Energy	2.27%
Spark	2.05%
Goodman	1.73%
Getlink	1.30%
AGL Energy	1.20%
Telstra	1.15%
Infratil	1.12%
Shell	1.07%
Elevance Health	0.99%
Cheniere Energy	0.95%

Current Asset Allocation

	Actual Investment Mix	Neutral Investment Mix
Effective Cash #	13.72%	5%
New Zealand Fixed Interest	15.46%	10%
International Fixed Interest	42.37%	45.0%
New Zealand Equities	6.87%	6.5%
Australian Equities	5.14%	10%
International Equities	9.84%	5%
Listed Property	6.60%	18.5%
Other	0.00%	0.0%

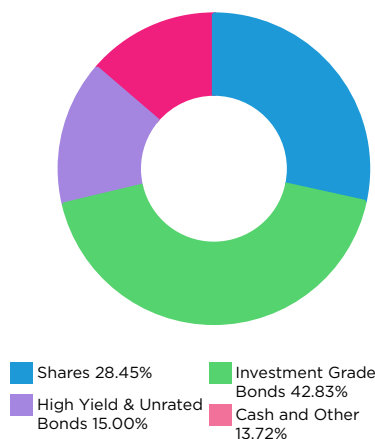
The actual cash held by the Fund is 3.71%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

Top Fixed Interest Holdings

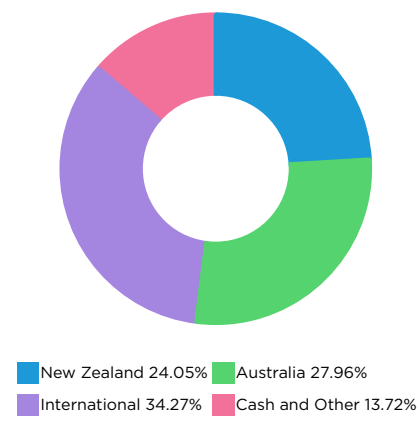
Holdings	% of Fund
NZGBI 2% 2025	5.04%
Scentre Group 5.125% 2080	1.19%
Telstra 4.9% 2028	1.04%
British Telecommunications	0.98%
CBA 4.9% 2028	0.93%
NZGBI 2% 2035	0.88%
Voyage Float 2029	0.83%
BIRG 5% 04/07/2031	0.82%
Virgin Money 4.625% 2028	0.82%
BNP Paribas 5.75% 2032	0.81%

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. The yield to maturity is not an indicator of future return, but reflects the current yield to maturity of the fund's underlying holdings (before tax and after the base fund fee). 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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