

# Diversified Income Fund

Portfolio Investment Entity

## Monthly Fact Sheet as at 30 September 2022



### Portfolio Managers



**Paul Morris**  
Portfolio Manager



**Dan Simmonds**  
Co-Portfolio Manager

Falling bond and share markets continued to be a headwind for returns during September, rounding out another challenging quarter. The Fund's ongoing cautious positioning did provide further cushion from the downside but was insufficient to prevent a loss of 3.0% over the month.

Bonds were weak as market interest rates jumped in reaction to stubbornly persistent inflation data and even higher expectations for how far central banks will increase their policy cash rates. This has increased the risk of a more pronounced economic slowdown, and caused further underperformance of corporate bonds relative to government bonds. That was unhelpful for the Fund given corporate bonds are its predominant exposure. It also weighed on share markets as the combination of a higher cost of capital and likely lower earnings saw broad based weakness. For the Fund's shares, it was property and infrastructure which saw valuations hit most, given their sensitivity to interest rates. One notable exception was US LNG exporter Cheniere Energy (+3.6%) which is benefitting from higher European gas demand.

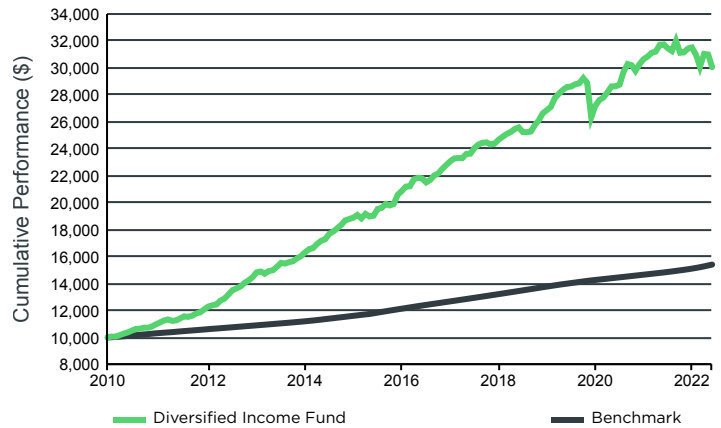
Cognisant of these risks, throughout the month we had retained the Fund's very cautious positioning; high levels of cash, a share exposure significantly lower than long run neutral, and limited exposure to higher market interest rates. Going into October we remain conservatively positioned but the extent of the market weakness means some share valuations may have fallen too much, affording opportunities to find shares with attractive medium term return outlooks. The same can be said across many parts of the corporate bond market. We are finding investment grade rated corporate bonds of high-quality companies, with strong balance sheets, at very attractive high single digit NZ Dollar equivalent yields to maturity. By focusing on shorter-dated bonds these yields offer considerable buffer against further moves up in market interest rates.

We believe that the timing for stability to return to markets, and possibly even a recovery, is getting closer given the extent of the market moves. We do not think we are there yet but are alert for signals, especially evidence inflation is sustainably falling. For now, we repeat our recent messaging that the outlook for medium term returns has improved given the higher interest rate environment but the caveat remains 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 October 2022 Market and Economic Review please see [milfordasset.com/fact-sheet](https://milfordasset.com/fact-sheet).

### 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

<b>Objective<sup>1</sup></b>	To provide income and capital growth over the minimum recommended investment timeframe
<b>Description</b>	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>	\$2,740.1 M
<b>Yield<sup>2</sup></b>	5.89%
<b>Average Credit Rating</b>	BBB
<b>Duration</b>	0.97 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>	1.1 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 30 September 2022

### Investment Performance after fees as at 30 September 2022<sup>5</sup>

Unit Price: \$1.7695

	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)	-3.01%	-0.08%	-5.29%	1.70%	4.92%	9.20%
After Tax 10.50%	-2.98%	-0.15%	-5.08%	1.48%	4.60%	8.58%
After Tax 17.50%	-2.96%	-0.19%	-4.94%	1.33%	4.39%	8.16%
After Tax 28.00%	-2.93%	-0.26%	-4.73%	1.12%	4.07%	7.56%
Benchmark	0.44%	1.28%	3.94%	3.26%	3.62%	3.52%

### Top Equity Holdings

Holdings	% of Fund
Contact Energy	2.19%
S&P500 E-Mini Future 2022	1.63%
Goodman	1.37%
Getlink	1.35%
Telstra	1.26%
Computershare	1.24%
Transurban	1.13%
Santos	1.03%
Charter Hall Retail	0.97%
Spark	0.95%

### Current Asset Allocation

	Actual Investment Mix	Neutral Investment Mix
Effective Cash #	26.98%	5.00%
New Zealand Fixed Interest	10.50%	10.0%
International Fixed Interest	41.67%	45.0%
New Zealand Equities	4.94%	6.500%
Australian Equities	4.12%	10.0%
International Equities	3.45%	5.00%
Listed Property	8.34%	18.500%
Other	0.00%	0.0%

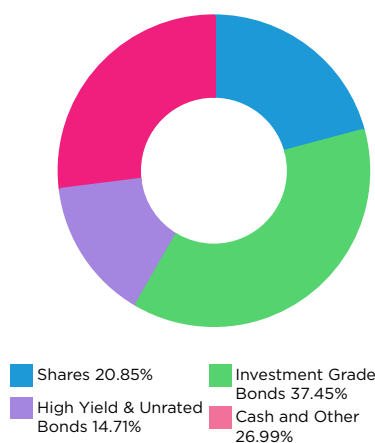
# The actual cash held by the Fund is 6.61%. Effective Cash reported above is adjusted to reflect the Fund's notional positions (e.g. derivatives used to increase or reduce market exposure).

### Top Fixed Interest Holdings

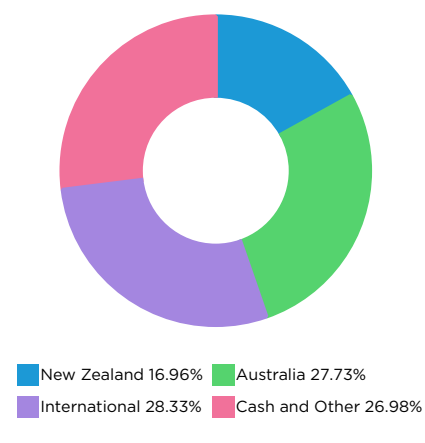
Holdings	% of Fund
NZGBI 2% 2025	3.28%
NBN Co 4.75% 2026	1.10%
Scentre Group 5.125% 2080	1.10%
CBA Float 2031	0.90%
Deutsche Bank 4% 2032	0.87%
Voyage Float 2029	0.84%
NZGB 2.5% 2035	0.84%
Westpac 6.19% 2032	0.82%
GAIF 2.584% 2027	0.77%
CBA 4.40% 2027	0.75%

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.

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