

# Diversified Income Fund

Portfolio Investment Entity

## Quarterly Fact Sheet as at 31 December 2018



### Portfolio Managers



**David Lewis**  
Portfolio Manager



**Jonathan Windust**  
Co-Portfolio Manager

The Fund fell by 1.2% in the December quarter, and returned 3.4% over 2018.

The Fund entered October with a 'modestly cautious' strategy, including our lowest exposure to shares (31%) for seven years, and a much-reduced exposure to high yield bonds compared to 2017. During October, our concerns grew regarding the impact of tighter global monetary policy and the trade war. Accordingly, we further reduced risk. By end-October our share exposure was down to 26% (including removing most of our exposure to global shares, and certain cyclical companies in Australasia) and cash rose to 18% (from 7%).

These strategies were important in protecting the Fund from weaker markets into year-end. Fund performance was also supported by positive returns from some of the lower-risk industries that typically dominate our share portfolio, including property, utilities and infrastructure.

Over November and December we retained this cautious approach with key allocations (e.g. exposure to shares, high yield bonds and cash) more stable. We focussed on actively managing individual holdings, including reducing positions in Australian property companies Aventus, Charter Hall and Mirvac. These are exposed to a weaker property market in Australia, particularly in residential. Positively there have been opportunities to add to solid companies at attractive valuations, with Orora (packaging) and APA Group (gas pipelines) being two examples. On the bond side, our focus was on reducing exposure to companies which are more exposed to a slower economic environment, and/or where valuations were still high relative to fundamentals and liquidity. Examples include Bank of Queensland, Precinct Properties, and select European banks.

Key positive performers in the Fund's share portfolio this quarter included Argosy (+10.9%) and Transurban (+6.4%). The Fund also

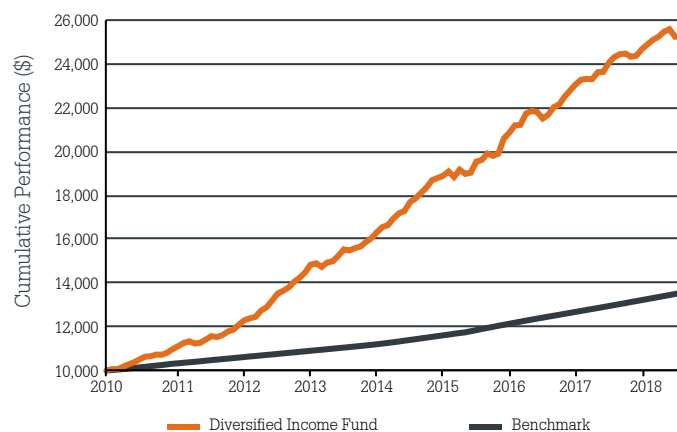
benefited from insurance strategies that helped protect from falling markets (including put options on US shares and increased exposure to interest rates). On the negative side, our bond holdings in European banks (~12% of the Fund) were weak and our share exposure to Unibail-Rodamco-Westfield fell 21.8%. We reviewed this position in December and retained a positive view given its attractive valuation and earnings growth outlook.

Looking ahead, both upside and downside risks are evident across several key issues including the trade war, global growth, US monetary policy, and Australasian housing markets. This makes for uncertain times, as is usually the case as a cycle turns. On balance, we believe that growth is likely to disappoint this year. Meanwhile, market valuations for income oriented investments are still generally high, despite improvements in some areas. Given this backdrop the Fund is retaining a cautious strategy at present.

Positively, over the three-year recommended investment period for the Fund we still think return prospects are attractive compared to those for cash and bank deposits. Further, the Fund's high cash holding at present leaves it in a good position to add to the right companies if valuations and/or prospects improve.

### 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 distributions.

### Key Fund Facts

<b>Objective<sup>1</sup></b>	Income and capital growth over a minimum of three years
<b>Description</b>	Diversified fund that primarily invests in fixed interest and equity income-generating securities
<b>Target Allocation</b>	60% Income Assets / 40% Growth Assets
<b>Neutral FX Exposure</b>	0%
<b>Net Asset Value (NAV)</b>	\$1,938.9 M
<b>Yield<sup>2</sup></b>	4.61%
<b>Average Credit Rating</b>	BBB+
<b>Duration</b>	1.22 years
<b>Buy-sell Spread</b>	None

<b>Inception Date</b>	1 April 2010
<b>Current Distribution</b>	1.6 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>	1.04% (includes an est. performance fee)
<b>Risk Indicator</b>	<div style="display: flex; justify-content: space-between;"> <span>Lower risk</span> <span>Higher risk</span> </div> <div style="text-align: center;"> <p>1 2 3 4 5 6 7</p> </div> <div style="display: flex; justify-content: space-between;"> <span>Potentially lower returns</span> <span>Potentially higher returns</span> </div>

## Investment Performance after fees as at 31 December 2018<sup>5</sup>

Unit Price: \$1.6572

	3 Months	6 Months	1 year	3 years (p.a.)	5 years (p.a.)	Since inception (p.a.)
Milford Diversified Income Fund (Gross Of Tax)	-1.17%	0.77%	3.44%	8.30%	10.15%	11.18%
After Tax 10.50%	-1.16%	0.67%	3.14%	7.65%	9.49%	10.41%
After Tax 17.50%	-1.15%	0.59%	2.94%	7.22%	9.05%	9.91%
After Tax 28.00%	-1.13%	0.48%	2.65%	6.58%	8.40%	9.17%
Benchmark	1.05%	2.10%	4.25%	4.39%	4.13%	3.57%

### Top Equity Holdings

Holdings	% of Fund's NAV
Contact Energy	2.67%
Meridian Energy	1.84%
Argosy Property	1.52%
Kiwi Property Group	1.40%
Transurban Group	1.28%
Aventus Retail Property Fund	1.13%
Spark New Zealand	0.95%
Stride Property	0.94%
Goodman Group	0.91%
Unibail-Rodamco-Westfield	0.91%

### Current Asset Allocation

	Actual Investment Mix	Neutral Investment Mix
Cash and Cash Equivalents	19.27%	5.00%
New Zealand Fixed Interest	12.93%	15.00%
International Fixed Interest	40.95%	40.00%
New Zealand Equities	8.74%	13.00%
Australian Equities	3.76%	12.00%
International Equities	1.09%	0%
Listed Property	12.62%	15.00%
Other	0.64%	0%

### Top Fixed Interest Holdings

Holdings	% of Fund's NAV
ASB Bank 5.25% 2026	1.96%
Westpac Banking Corporation 4.695% 2026	1.62%
OBE Insurance Group 6.75% 2044	1.42%
Aventus Capital Float 2025	1.26%
Mirvac Group Finance 3.625% 2027	1.13%
Rabobank 4.625% 2025	1.08%
Bank of New Zealand 3.375% 2021	1.07%
ANZ Bank 7.2% 2020	0.86%
JPMorgan 5.15% 2023	0.85%
Westpac Banking Corporation Float 2021	0.83%

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

### Fund Portfolio Mix



Investment Grade Bonds 36.52%  
High Yield & Unrated Bonds 17.36%  
Shares 26.21%  
Cash and Other 19.91%

### Country Exposure



New Zealand 26.30%  
Australia 29.76%  
International 24.03%  
Cash and Other 19.91%

1. After the base fund fee but before tax and before the performance fee. 2. Yield (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 Quarterly Fact Sheet' at [milfordasset.com/fact-sheet](http://milfordasset.com/fact-sheet) for more information about the data published within this document.

Level 28, 48 Shortland Street, Auckland  
PO Box 960, Shortland Street, Auckland 1140  
Free phone 0800 662 345  
milfordasset.com

