

# Diversified Income Fund

Portfolio Investment Entity

Monthly Fact Sheet as at 31 August 2019



## Portfolio Managers



**David Lewis**  
Portfolio Manager



**Jonathan Windust**  
Co-Portfolio Manager

The Fund returned a solid 1.0% for August, taking the 1-year return to 11.4%. Trade tensions drove some softness in global markets with NZ, Australian and global share markets all lower. Market interest rates fell globally and are now negative in many countries. Falling interest rates are positive for short-term returns in the Fund as our bond holdings and dividend-oriented share exposures all saw strong investor demand and resulting higher prices. This has been a key driver throughout 2019 and we are very pleased with how the Fund has been positioned for this trend. However, we continue to emphasise that lower interest rates and dividend yields do imply lower future returns over time.

At the company level, this month has been focussed on profit announcements across Australasia. Key positives included NZ electricity generators and Spark (+11.1%), which announced solid profit growth and sustainability of its dividend. In Australia several key real estate holdings including Charter Hall Long WALE REIT (+14.0%), Charter Hall Group (+11.7%) and Aventus (+6.1%) performed well after reporting strong results. On the negative side there were meaningful declines for two smaller holdings, packaging company Orora (-17.5%), and a2 Milk (-19.8%). We believe valuation and medium-term prospects for these two companies remain attractive.

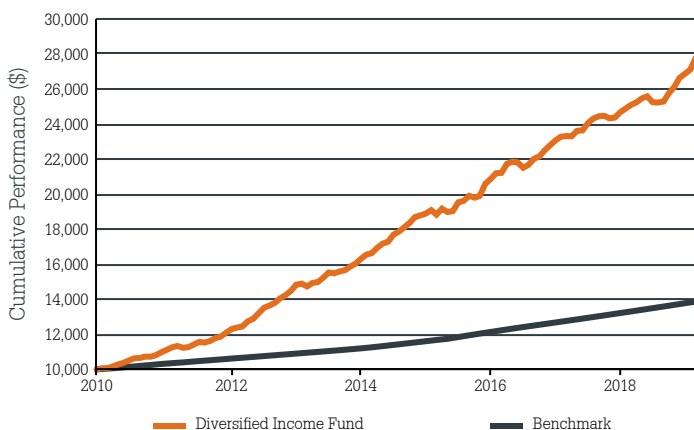
On the bond side, it was an active month, with holdings increased in Lend Lease and ASB Bank, amongst others. In addition, we have made some minor changes to the way the bond portfolio is managed. The Fund has increased its allocation to the Trans-Tasman Bond Fund (from 5% to 8%) and the Global Corporate Bond Fund, from (7% to 12%). At the same time, the Fund has exited several smaller positions across its directly held bond portfolio. This allows for more efficient management of the Fund's fixed income exposures, while at the same time keeping the overall risk and style unaffected.

Looking ahead, our strategic view remains "moderately cautious", as the negatives of slower growth, increased economic uncertainty, and higher valuations in some markets are offset by near term support from central bank stimulus and low interest rates. We also note that the Fund will be reducing the level of its quarterly distributions, reflecting lower interest rates discussed above. Milford has sent additional details on this change to clients invested in the Fund.

To view Milford's September 2019 Market and Economic Review please see [milfordasset.com/fact-sheet](http://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>	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>	\$2,220.5 M
<b>Yield<sup>2</sup></b>	3.37%
<b>Average Credit Rating</b>	BBB+
<b>Duration</b>	0.73 years
<b>Buy-sell Spread</b>	None
<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>	0.95% (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="display: flex; justify-content: center; align-items: center; gap: 10px;"> <span>1</span> <span>2</span> <span style="color: orange;">3</span> <span>4</span> <span>5</span> <span>6</span> <span>7</span> </div> <div style="display: flex; justify-content: space-between; margin-top: 5px;"> <span>Potentially lower returns</span> <span>Potentially higher returns</span> </div>

## Investment Performance after fees as at 31 August 2019<sup>5</sup>

Unit Price: \$1.806

	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)	1.02%	4.67%	11.41%	9.11%	10.56%	11.71%
After Tax 10.50%	1.00%	4.54%	10.91%	8.50%	9.88%	10.95%
After Tax 17.50%	0.99%	4.46%	10.58%	8.10%	9.44%	10.44%
After Tax 28.00%	0.98%	4.33%	10.09%	7.50%	8.77%	9.70%
Benchmark	0.30%	0.96%	4.14%	4.22%	4.26%	3.60%

### Top Equity Holdings

Holdings	% of Fund's NAV
Spark New Zealand	2.42%
Contact Energy	2.40%
Meridian Energy	1.77%
Mirvac Group	1.55%
Charter Hall Long Wale REIT	1.48%
Charter Hall Education Trust	1.37%
Argosy Property	1.11%
Arena REIT	1.09%
Kiwi Property Group	1.09%
Aventus Retail Property	1.06%

### Current Asset Allocation

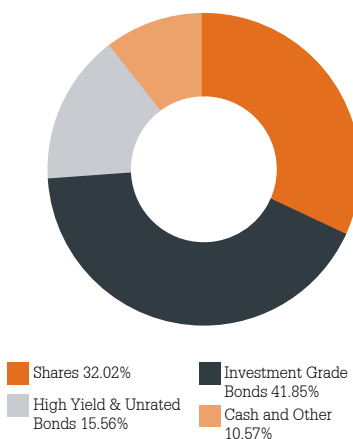
	Actual Investment Mix	Neutral Investment Mix
Cash and Cash Equivalents	10.57%	5.00%
New Zealand Fixed Interest	12.78%	15.00%
International Fixed Interest	44.65%	40.00%
New Zealand Equities	10.48%	13.00%
Australian Equities	5.81%	12.00%
International Equities	0.36%	0%
Listed Property	15.35%	15.00%
Other	0.00%	0%

### Top Fixed Interest Holdings

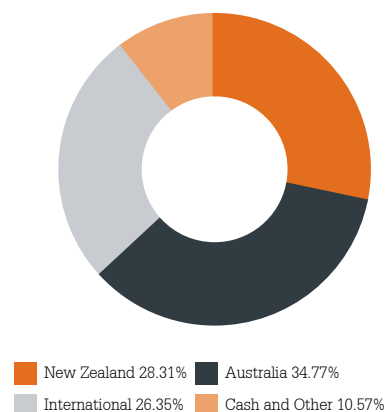
Holdings	% of Fund's NAV
OBE 6.75% 2044	1.78%
JPMorgan 1.09% 2027	1.28%
Bank of America 3.458% 2025	1.25%
Mirvac Group 3.625% 2027	1.18%
Westpac 4.695% 2026	1.03%
Rabobank 4.625% 2025	1.00%
JPMorgan 5.15% 2023	0.99%
ASB Bank 5.25% 2026	0.99%
Aventus Capital Float 2025	0.99%
HSBC 6% 2023	0.89%

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

### Fund Portfolio Mix



### Country 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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