

Milford Diversified Income Fund (AU)

May 2022

Portfolio Managers



Paul Morris
Portfolio Manager



Dan Simmonds
Co-Portfolio Manager

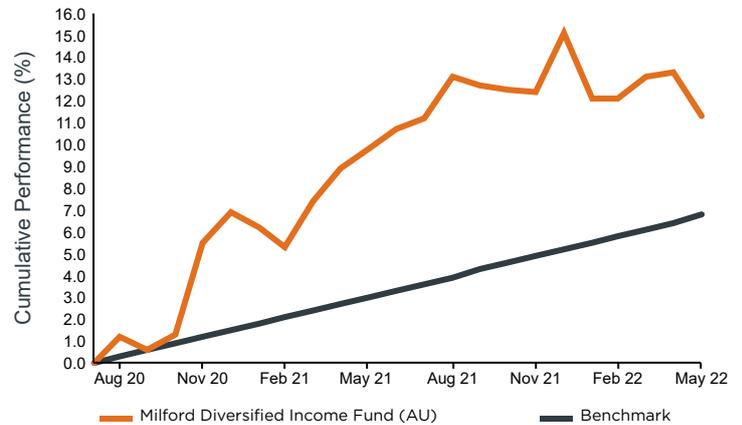
May saw the Fund on the back foot as it posted a negative return of -1.7%. Many of the Fund's bonds were weaker, most notably in Australian Dollars and Euros where market interest rates rose post the respective central banks indicating coming rate increases. Performance across the Fund's shares was disparate. There were some strong performers, including rising rate beneficiaries such as offshore banks which partially recovered from recent recession scare weakness (e.g. UK Barclays Bank +14.1% and US bank JPMorgan +10.8%). Unfortunately, there was notable weakness across the Fund's property company holdings. Industrial property companies such as US based Prologis and Australian based global property manager Goodman Group were two of the weakest on fears that tenant demand may be waning as Amazon disclosed it had spare warehouse capacity.

Fund positioning remains cautious. Share exposure within the Fund remains significantly lower than its long run neutral. Broad equity market valuations appear to have adjusted to higher interest rates but may need to fall further to acknowledge ongoing higher economic and earnings uncertainty. We do however continue to add opportunistically to shares where valuations and future returns are attractive. In May we bought attractively priced convertible preference shares in NextEra the US electricity utility which has a significant renewable energy business.

In recent weeks we have also been adding more corporate debt where potential returns are increasingly attractive, many in high single digit implied returns to maturity. Prevailing market interest rates may be approaching long run fair value, but we are still wary risks remain skewed for rates to move higher if inflation is more persistent. To mitigate this risk, we have focused our buying in shorter dated bonds where the impact of higher market interest rates is lower. An example was participation in the loan financing of the 2degrees merger with Orcon (a joint venture between Macquarie Asset Management and Aware Super).

Looking ahead, near term Fund returns are likely to remain somewhat volatile but we reiterate that over the medium term the Fund is well placed to deliver moderate returns in line with its objective, underpinned by now higher and closer to fair value market interest rates.

Investment Performance to May 2022*



* Cumulative performance since inception, after all fees and expenses, and assumes reinvestment of distributions.

Key Fund Facts

Objective	Provide a regular income as well as providing moderate capital growth, while seeking to preserve capital over rolling two-year periods.
Description	A diversified portfolio that primarily invests in fixed interest and equity income generating securities.
Benchmark	RBA Cash Rate + 3.5% p.a.
APIR	ETL1908AU
mFund Code	MFA03
Redemption Price as at 30 Apr	\$1.03
NAV as at 30 Apr	\$15.5 Million
Inception Date	August 2020
Minimum Investment	\$20,000
Recommended Investment Timeframe	3 years +
Buy-sell Spread	+/-0.15%
Entry/Exit Fee	Nil
Running Yield	3.2%
Management Fee*	0.70%
Capped Expense Recovery*	0.05%
Fund Pricing	Daily
Distribution Frequency**	Monthly

*Fees are stated exclusive of GST.

**Current monthly estimated distribution 0.18 cents per unit.

Investment Performance to May 2022*

	1 Month	6 Months	1 year	3 years (p.a.)	5 years (p.a.)	Since inception (p.a.)**
Milford Diversified Income Fund (AU)	-1.74%	-0.91%	1.36%	-	-	6.05%
Benchmark	0.32%	1.80%	3.62%	-	-	3.64%
Over/Underperformance	-2.06%	-2.71%	-2.26%	-	-	2.41%

Past performance is not a reliable indicator of future performance.

* Net performance figures are shown after all fees and expenses, and assumes reinvestment of distributions.

** Inception date of the Fund is 03 August 2020.

Top Equity Holdings

Holdings	% of Fund
Telstra	1.39%
Goodman	1.30%
NAB	1.28%
Contact Energy	1.15%
Shopping Centres AU	1.14%
Getlink	1.14%
Origin Energy	1.05%
Santos	1.04%
Transurban	1.03%
Cheniere Energy	1.00%

Current Asset Allocation

	Actual	Neutral	Maximum Range
International Fixed Interest	28.70%	35.0%	0-70%
Australian Fixed Interest	25.91%	20.0%	0-70%
Australian Equities	11.01%	20.0%	0-50%
Listed Property	9.59%	15.0%	0-30%
International Equities	7.97%	5.0%	0-40%
Cash and Other #	16.82%	5.0%	0-60%

Cash and Other reported above is adjusted to reflect the Fund's notional positions.

Top Fixed Interest Holdings

Holdings	% of Fund
Magallanes 3.755% 2027	2.12%
Deutsche Bank 4% 2032	1.84%
Scentre Group 5.125% 2080	1.64%
NextEra Energy	1.53%
Downer Group 3.7% 2026	1.48%
HSBC Float 2024	1.27%
CBA Float 2030	1.27%
CBA Float 2032	1.26%
Bank of Queensland Float 2026	1.12%
Macquarie 4.08% 2029	1.12%

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

Fund Changes

There have been no material changes to the Fund's risk profile or strategy since the last monthly report. There have been no changes to the key service providers or individuals playing a key role in investment since the last monthly report.

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Milford Diversified Income Fund (AU)'s Target Market Determination is available at <https://milfordasset.com.au/forms-documents.au>. The Target Market Determination is a document describing who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.