

Milford Diversified Income Fund (AU)

April 2022

Portfolio Managers



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Bond and share markets remain under pressure. Bonds continue to adjust to higher market interest rates as central banks signal significant policy tightening will be required to tame inflation. Shares are also adjusting to this policy shift, and to the risk profit growth may decelerate as cost inflation persists and growth slows. The Fund went into the month positioned wary of these risks which helped in navigating heightened volatility to deliver a return of 0.2% for the month.

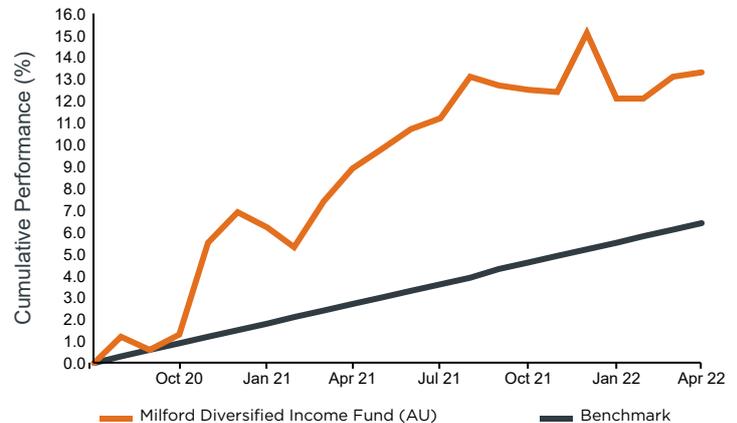
The Fund's resilience to these headwinds was helped by a significantly lower allocation to shares and bonds than its long-run neutral. Interest rate exposure has also been limited. The Fund's shares have continued to be tilted away from lower growth income shares (i.e. shares where return is expected to be predominately from dividends), with more exposure to shares that benefit from higher inflation and interest rates. The focus remains however on companies with defensive earnings. A good example of this is global infrastructure which has become a larger exposure for the Fund over the past year. Within this sector April was another notable month for the European airport and road operator Atlantia (+20.8%) as it benefitted from a takeover offer.

While we view prevailing higher market interest rates as closer to long-run fair value, we remain wary interest rate risks remain skewed for further moves higher if inflation remains more persistent. Thus we continue to be very selective in buying bonds, careful of increasing exposure to market interest rates in all but the cheapest markets.

We are still wary many share markets have not fully adjusted to the headwind of higher market interest rates and higher economic uncertainty, including higher inflation. We have therefore retained share exposure lower than in recent quarters. We will opportunistically add to shares where valuations are attractive, and reduce holdings in shares which have outperformed the broader market and where valuations are stretched. Until we get more confidence in the outlook we will limit broad share market exposure below long-run neutral.

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

Investment Performance to April 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 | \$1.05 |
| 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 | 3.0% |
| 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 April 2022*

| | 1 Month | 6 Months | 1 year | 3 years (p.a.) | 5 years (p.a.) | Since inception (p.a.)** |
|--------------------------------------|---------|----------|--------|----------------|----------------|--------------------------|
| Milford Diversified Income Fund (AU) | 0.18% | 0.74% | 4.01% | - | - | 7.43% |
| Benchmark | 0.29% | 1.77% | 3.60% | - | - | 3.63% |
| Over/Underperformance | -0.11% | -1.02% | 0.41% | - | - | 3.80% |

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 |
|---------------------|-----------|
| Transurban | 1.82% |
| Telstra | 1.45% |
| Goodman | 1.43% |
| NAB | 1.34% |
| Contact Energy | 1.28% |
| Shopping Centres AU | 1.19% |
| Woolworths | 1.11% |
| Origin Energy | 1.05% |
| Charter Hall Retail | 1.03% |
| Santos | 1.02% |

Current Asset Allocation

| | Actual | Neutral | Maximum Range |
|------------------------------|--------|---------|---------------|
| International Fixed Interest | 26.65% | 35.0% | 0-70% |
| Australian Fixed Interest | 24.06% | 20.0% | 0-70% |
| Australian Equities | 13.87% | 20.0% | 0-50% |
| Listed Property | 10.53% | 15.0% | 0-30% |
| International Equities | 2.71% | 5.0% | 0-40% |
| Cash and Other # | 19.50% | 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 | 2.13% |
| Scentre Group 5.125% 2080 | 1.72% |
| Downer Group 3.7% 2026 | 1.49% |
| HSBC Float 2024 | 1.28% |
| CBA Float 2030 | 1.27% |
| CBA Float 2032 | 1.27% |
| Bank of Queensland Float 2026 | 1.13% |
| Mirvac Group 3.625% 2027 | 1.11% |
| Wesfarmers 1.941% 2028 | 1.11% |
| JPMorgan 5% 2024 | 1.00% |

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.