

Milford Diversified Income Fund (AU)

October 2023



Portfolio Managers



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Portfolio Manager



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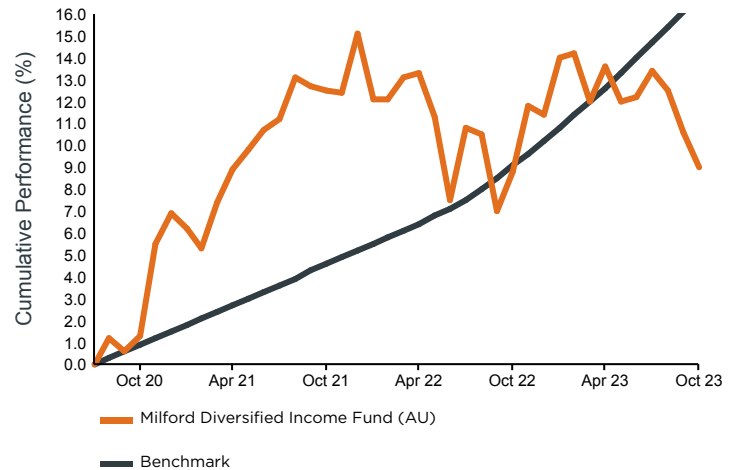
Bonds and share valuations generally continued to adjust lower to the reality that market interest rates are likely to remain higher for longer, unlikely to fall back to the post Global Financial Crisis central bank distorted lows. In October, the Fund fell 1.5%. Over the past couple of years this valuation adjustment, due to a generational move higher in interest rates, has held back Fund returns, even if we have cushioned the Fund from much of this. Looking forward, however, we believe investor patience is close to being rewarded as historically attractive bond yields should underpin medium and long-term Fund returns.

While rate cuts may be delayed, central banks may not need to hike (much) further as economies slow. This has supported shorter-dated bonds, but longer-dated bond prices continue to fall, reflecting the growing reality that interest rates are likely to remain higher for longer. We had further reduced the Fund's interest rate exposure, wary of this risk, which provided some mitigation. We continue to believe the lagged impact of higher interest rates on economies is longer in this cycle, but that rate hike effects are increasingly feeding through. We will start adding back interest rate exposure once we see evidence of an economic growth slowdown or faster disinflation. We are, however, still investing in bonds with lower interest rate exposure and yields which offer a generous buffer against a move higher in market interest rates.

Broad share markets continued to weaken in October, further adjusting to the higher interest rate environment. Third quarter company reporting has generally been fine, but concerns remain for earnings risks into next year. The market weakness has remained pronounced in income-oriented shares such as property, utilities and infrastructure, albeit there were pockets of resilience, e.g. UK water utilities such as Penon (+24.0%) given many valuations had already been hit hard. We remain cautiously positioned with less shares than our long run neutral, which provided some return cushion. We further trimmed exposure during the month, focused on shares where valuation risk remains more elevated, wary of the impact from higher interest rates on valuations and earnings.

Weakness in shares leaves many of the Fund's holdings with some valuation support, but we will remain defensively positioned in terms of aggregate share exposure for now. Our preference remains to have a larger allocation to bonds at the expense of this smaller share exposure. While prevailing cash rates are historically attractive, we think corporate bonds offer a better return outlook, with an income stream which should be materially higher than any fall in bond prices from this point on.

Investment Performance to October 2023¹



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 31 Oct	\$0.9339
Fund Size*	\$14.1 Million
Inception Date	August 2020
Minimum Investment	\$1,000
Recommended Investment Timeframe	4 years +
Buy-sell Spread	+/-0.15%
Entry/Exit Fee	Nil
Yield to Maturity	5.48%
Management Fee	0.76%
Fund Pricing	Daily
Distribution Frequency	Monthly (0.18 cents per unit)

*The Fund Size represents the total assets of the fund

Investment Performance to October 2023²

	1 Month	6 Months	1 year	3 years (p.a.)	5 years (p.a.)	Since inception (p.a.) ³
Milford Diversified Income Fund (AU)	-1.45%	-4.00%	0.19%	2.48%	-	2.70%
Benchmark	0.62%	3.73%	7.14%	5.01%	-	4.92%
Over/Underperformance	-2.07%	-7.73%	-6.95%	-2.53%	-	-2.22%

Top Equity Holdings

Holdings	% of Fund
Goodman	1.74%
Telstra	1.47%
Infratil	1.17%
Transurban	1.08%
Fiserv	0.99%
AGL Energy	0.97%
Elevance Health	0.83%
HCA Holdings	0.83%
Bank of Ireland Group	0.79%
APA	0.77%

Current Asset Allocation

	Actual	Neutral	Maximum Range
International Fixed Interest	30.37%	35%	0-70%
Australian Fixed Interest	30.73%	20%	0-70%
Australian Equities	15.47%	20%	0-50%
International Equities	6.72%	5%	0-40%
Listed Property	4.84%	15%	0-30%
Cash and Other ⁴	11.87%	5%	0-60%

Top Fixed Interest Holdings

Holdings	% of Fund
CBA 5% 2028	2.13%
NBS 5.35% 2028	2.08%
Scentre Group 5.125% 2080	1.88%
Warnermedia 3.755% 2027	1.77%
AT&T 2.875% Perpetual	1.66%
Downer Group 3.7% 2026	1.60%
Asciano 5.25% 2025	1.57%
Barclays 8.407% 2032	1.50%
Bank of Ireland 7.594% 2032	1.44%
CBA Float 2030	1.44%

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.

1. Cumulative performance since inception, after all fees and expenses, and assumes reinvestment of distributions. 2. Past performance is not a reliable indicator of future performance. Returns greater than one year are annualised. 3. Inception date of the Fund is 03 August 2020. 4. Cash and Other reported above is adjusted to reflect the Fund's notional positions.

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Milford Diversified Income Fund (AU)'s Target Market Determination is available at <https://milfordasset.com.au/documents-and-forms>. 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.