

# Milford Diversified Income Fund (AU)

April 2024



## Portfolio Managers



**Paul Morris**  
Portfolio Manager



**Dan Simmonds**  
Co-Portfolio Manager

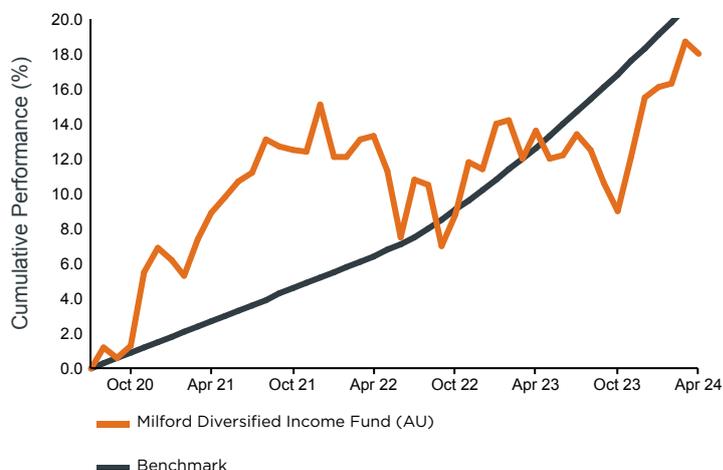
Cautious positioning and some rewarding bond and share selections provided a significant cushion against broad weakness in bond and share markets. This allowed the Fund to consolidate its recent strong returns to end the month down only -0.6%. April was dominated by inflation headlines, specifically higher inflation than global and Australasian central banks would have hoped for. Evidence continues to grow that the so called “last mile” in inflation’s journey back to central bank targets is proving longer than expected. This challenged market expectations for near-term rate cuts.

The result was a significant rise in market interest rates, as pricing of rate cuts was reigned in across many key economies the Fund has exposure to. The result was lower bond prices and a negative return contribution from fixed income. The extent was, however, limited by retaining a lower exposure to interest rates than has historically been the norm. It was further helped by the Fund’s predominant fixed income exposure remaining to corporate bonds, which continued to outperform government bonds. We continue to trim more expensive global corporate bond holdings, given valuations versus government bonds are ever more expensive, and look to more attractively priced new bonds in AU dollars such as from shopping centre landlord Vicinity Centres which yielded approximately 6.2%.

Even though 1Q company reporting has thus far been reasonable, broad share markets were weaker in April. The negative impact was mitigated by having reduced aggregate share exposure as market interest rates rose, and benefiting from existing protection strategies, such as holding share index options, which profit the Fund if share markets fall. A lower exposure to traditional income shares (notably property) also helped. Income shares were under pressure from higher market interest rates. Instead the Fund benefited from its greater exposure to non-income-oriented shares. These included higher for longer interest rate beneficiaries such as UK bank NatWest (+14.3%). These types of shares have attractive return outlooks in and of themselves, but also offer Fund returns some protection from higher interest rates and inflation.

Reasonable medium-term Fund returns should be underpinned by the attractive yields prevailing from both bonds and income shares. This income should provide a significant cushion from the negative price impact of most conceivable moves higher in market interest rates. We currently plan to use further weakness to add exposure to both, and to eventually increase interest rate exposure. If valuations cheapen sufficiently, we would also look to add shares of companies where earnings are both low risk and clearly visible into the future. While not our base case, the key risk for the outlook is a material reacceleration of inflation which would limit central banks’ ability to cut rates if economic growth (and thus profits) slowed or, worse still, have to increase rates. Therefore, considering the Fund’s absolute return target we continue to own downside share market protection via broad market index options and to restrict interest rate exposure below long run historic levels.

## Investment Performance to April 2024<sup>1</sup>



## Key Fund Facts

<b>Objective</b>	Provide a regular income as well as providing moderate capital growth, while seeking to preserve capital over rolling two-year periods.
<b>Description</b>	A diversified portfolio that primarily invests in fixed interest and equity income generating securities.
<b>Benchmark</b>	RBA Cash Rate + 3.5% p.a.
<b>APIR</b>	ETL1908AU
<b>mFund Code</b>	MFA03
<b>Redemption Price as at 30 Apr</b>	\$0.9994
<b>Fund Size*</b>	\$15.1 Million
<b>Inception Date</b>	August 2020
<b>Minimum Investment</b>	\$1,000
<b>Recommended Investment Timeframe</b>	4 years +
<b>Buy-sell Spread</b>	+/-0.15%
<b>Entry/Exit Fee</b>	Nil
<b>Yield to Maturity</b>	4.90%
<b>Management Fee</b>	0.76%
<b>Fund Pricing</b>	Daily
<b>Distribution Frequency</b>	Monthly (0.18 cents per unit)

\*The Fund Size represents the total assets of the fund

## Investment Performance to April 2024<sup>2</sup>

	1 Month	6 Months	1 year	3 years (p.a.)	5 years (p.a.)	Since inception (p.a.) <sup>3</sup>
Milford Diversified Income Fund (AU)	-0.58%	8.20%	3.88%	2.69%	-	4.51%
Benchmark	0.62%	3.83%	7.71%	5.70%	-	5.30%
Excess Return	-1.20%	4.37%	-3.83%	-3.01%	-	-0.79%

## Top Equity Holdings

Holdings	% of Fund
Telstra	1.82%
Precinct	1.71%
Contact Energy	1.32%
Infratil	1.16%
Metcash	1.05%
Bank of Ireland Group	1.05%
Goodman	1.04%
SBA Comms.	0.96%
Origin Energy	0.89%
Ameren	0.88%

## Current Asset Allocation

	Actual	Neutral	Maximum Range
International Fixed Interest	26.95%	35%	0-70%
Australian Fixed Interest	32.26%	20%	0-70%
Australian Equities	18.62%	20%	0-50%
International Equities	1.45%	5%	0-40%
Listed Property	5.23%	15%	0-30%
Cash and Other <sup>4</sup>	15.49%	5%	0-60%

## Top Fixed Interest Holdings

Holdings	% of Fund
CBA 5% 2028	2.04%
NBS 5.35% 2028	2.01%
Scentre Group 5.125% 2080	1.89%
Warnermedia 3.755% 2027	1.66%
AT&T 2.875% Perpetual	1.61%
Downer Group 3.7% 2026	1.54%
Asciano 5.25% 2025	1.50%
Westpac 7.199% 2038	1.46%
Contact 6.398% 2030	1.42%
NatWest 7.416% 2033	1.37%

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.