

Portfolio overview – 28 February 2009

Needs category objective

- Anticipated expenditure to meet living or lifestyle expenses over a two to five year period.

Investment objective

- Achieve higher returns than bank deposits over the minimum investment time frame.

Key features

- Designed specifically to meet the objective of the Near Term Spending Needs category.
- Invests in a diversified range of income-producing investments, including: cash, government-guaranteed bonds and debt securities such as corporate bonds, mortgage-backed bonds and interest rate exposures.
- Ability to select assets from a global universe.

Risk management

- Utilises NZ Funds' risk management strategy to manage risks associated with changes in interest rates and credit spreads.
- Diversified to ensure clients are not unduly exposed to any one sector or type of income-producing investment.
- Portfolio construction places equal emphasis on risk management (downside protection) and generating returns.
- Portfolio manager manages individual investment risks by conducting in-depth fundamental research on each investment held.

Return enhancement

- Ability to select the most attractive assets on offer from a wider universe (not just Australasia but also the United States and Europe).
- As managers, we recognise that during some periods all investments can suffer as part of a wider market malaise. NZ Funds' risk management strategy aims to identify these periods and actively manage market exposures to seek to preserve clients' capital during these stages of the cycle.

Manager insight – 28 February 2009

After a strong December and January which saw the Portfolio increase by 1.85%¹ over these two months, some of these gains were given back in February with a decline of 0.45%¹.

The performance for the month was primarily driven by four- and five year wholesale interest rates moving higher. Also detracting from performance, to a lesser degree, was the Portfolio's 3% holding in a Citibank senior bond – which declined in value.

The overall positioning of the Portfolio remains very cautious as we expect 2009 to be at least as difficult as 2008. Notwithstanding this, we continue to look for corporate bond opportunities that fit our criteria – namely, highly-rated businesses that operate in defensive sectors. A good example of this is the Portfolio's 5% position in a Telstra 2012 senior bond. Telstra clearly demonstrated the defensive nature of their business in February by announcing a very positive half-year result, with net profit essentially unchanged from the previous period.

Bond insight: Fonterra versus Auckland City Council

Locally, a number of corporate issues have come to the market. The two largest issues were by Fonterra and Auckland City Council. We have purchased a holding in the Fonterra issue, but did not participate in the Auckland City issue. The decision to pass on the Auckland City Council bond reflected both uncertainty over the Auckland Super City – which we expect to happen, and the impact of

the difficult economic environment on the councils balance sheet. Auckland City's revenue, like all New Zealand councils, is closely tied to the fortunes of the property market. Indeed their largest source of revenue is from rates which are calculated on the basis of property values. Another important source of revenue are the charges the council levies on residential and commercial construction. Which such a high dependence on property related income it is difficult to see the balance sheet of Auckland City improving over the medium term.

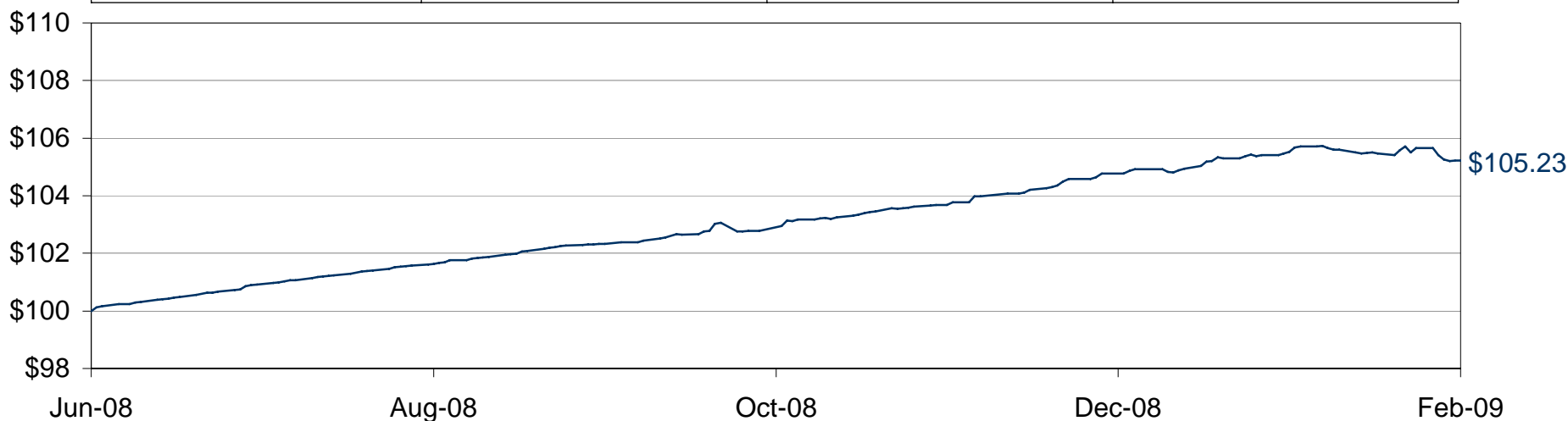
The decision to purchase the Fonterra issue was based on the attractive issue yield of 7.75% and NZ Funds assessment of the Fonterra capital structure. The key aspect of the Fonterra capital structure, for a debt holder, is that in contrast to almost all other businesses they have no input costs. Farmers supply Fonterra with milk. However because of the Fonterra's co-operative structure farmers are not directly paid for this milk as a supplier. As owners of the business, farmers are paid last after all other creditors are paid out. This is significant positive for debt holders because it means that Fonterra generates very high free cashflow to cover debt repayments and if the worst were to happen and Fonterra were to be declared insolvent then debt holders will receive repayment of their principal before any payment to farmers.

¹ Returns are stated after fund fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

Core Income Portfolio

Performance since 25 June 2008 to 28 February 2009

Performance attribution	One month	Three month	Six month
Positive	Running yield	-	-
Neutral	Credit spreads	-	-
Negative	Long duration positions	-	-



One-month return	Three-month return	Six-month return	One-year return	Since inception of strategy pa
-0.45%	1.41%	3.40%	-	-

Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns. The Portfolio was launched on 20 May 2008. As the Portfolio was only invested on 25 June 2008, performance is measured from this date.

Core Income Portfolio



Portfolio summary as at 28 February 2009

Portfolio summary

Number of securities	30*
Weighted average running yield (approximately)	5.0%**
Weighted average credit rating	AA+

Sector / Security	Portfolio value	Proportion of portfolio	Maturity date / Expected average life date	S&P rating	Yield to maturity****
Bank deposits / Bank bills		32%			
ANZ (Bank bills)	\$6,084,982	12%	Apr-09	A1+	3.4%
ASB Bank (Bank bills)	\$2,254,518	4%	May-09	A1+	3.3%
BNZ (Bank bills)	\$1,438,951	3%	Apr-09	A1+	3.6%
Kiwibank (Bank bills)	\$2,352,609	5%	Aug-09	A1+	3.3%
Westpac (Bank deposits)	\$1,330,805	3%	Current	A1+	3.4%
Westpac (Bank bills)	\$2,664,315	5%	May-09	A1+	3.3%
Corporate bonds		13%			
Telstra Corporation	\$2,538,203	5%	Nov-12	A	7.0%
Citigroup	\$1,397,038	3%	May-12	A	11.2%
Vodafone	\$2,799,405	6%	Jan-13	A-	7.8%
Government guaranteed bonds		30%			
ANZ	\$1,492,522	3%	Dec-10	AAA	3.3%
Commonwealth Bank of Australia	\$4,036,779	8%	Dec-13	AAA	4.9%
National Australia Bank	\$1,481,178	3%	Jan-12	AAA	3.8%
Westpac	\$6,078,367	12%	Dec-11	AAA	3.6%
BNZ	\$1,861,198	4%	Feb-14	AAA	4.9%
Residential mortgages		12%			
AMSNZ mortgage security (various issues)***	\$4,622,155	9%	May-10 to Mar-11	AA- to AAA	10.6%
Sapphire New Zealand mortgage security (various issues)	\$1,310,284	3%	Feb-11 to Jul 11	AA	17.5%
Other debt securities		4%			
Titan (portfolio of Australian & US corporate loans)	\$2,037,658	4%	Jun-09	AA	14.8%
Loans		9%			
Private Loan Trust (Fidelity - 32 current loans)	\$4,791,291	9%		NR	7.5%
Total	\$50,572,258	100%			

*With reference to bank bills, the Portfolio often holds more than one security under a given issuer. The 'number of securities' takes this into account. **The running yield is stated after the deduction of management, custodial and trustee fees. The running yield is not the actual return of the fund, nor is it a projection or forecast. ***Originated and serviced by AMSNZ, a subsidiary of GE Capital. ****The yield to maturity is stated before the deduction of management, custodial and trustee fees. Note: Rounding may affect the subtotals and totals.

For further information or to request a copy of the relevant Investment Statement, please contact New Zealand Funds Management Limited.

Past performance is not necessarily an indication of future returns.

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