

## MANAGER INSIGHT – 28 FEBRUARY 2010

The Portfolio returned -0.20%<sup>1</sup> in February. The muted performance for the month reflects the flat returns from the Portfolio's New Zealand and United States corporate bonds and offsetting performance from United States interest rates (negative) and New Zealand interest rates (positive).

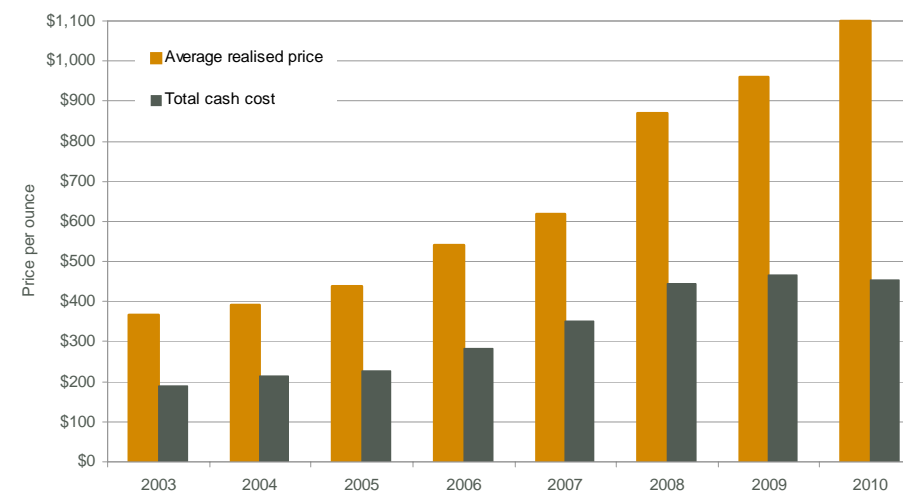
### Bond insight: Barrick Gold

A new addition to the Portfolio this month is a bond issued by the world's largest gold producer. Barrick Gold is a Toronto-based company engaged in the production and sale of gold, as well as related activities, such as exploration and mine development. The company has proven reserves of 140m ounces and with production of approximately 7m ounces of gold per year, it has an 18% share of the global gold market. The company has a stable of 28 mines spread across North and South America, Africa, Australia and the Pacific. In addition to this, five mines are due to commence production over the next three years. Barrick also produces copper and holds interests in platinum and nickel development projects located in Africa.

The company enjoys significant financial flexibility – thanks primarily to low production costs. For the 2009 financial year, Barrick produced gold at an average of \$460 per ounce. With gold currently trading at more than US\$1,000 an ounce, the company is able to maintain generous profit margins and free cashflow. This strong cashflow has seen the company build a healthy financial profile. Net debt is just 1.1 times EBITDA (earnings before interest tax, depreciation and amortisation) while the interest cost on its outstanding debt is covered more than 11 times by its earnings.

Towards the end of 2009, the company moved to maximise its business's sensitivity to changes in the gold price by removing 100% of its gold hedging. In the short-term, this saw the company incur a one-off cash charge of US\$5 billion. Over the medium- to long-term, this means that the company is exceptionally well-placed to experience very strong profit growth should the gold price continue to increase. The combination of this upside potential and the company's very strong credit profile make bonds issued by Barrick Gold a compelling addition to the Portfolio.

### Barrick Gold: Average realised gold price vs cost of production

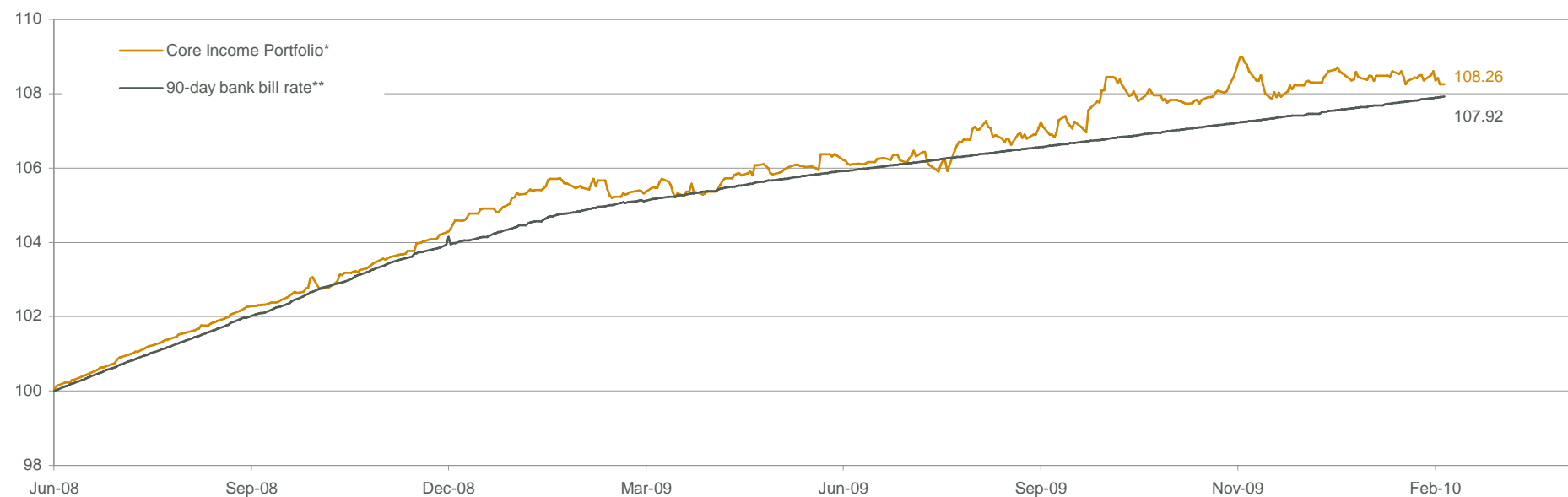


Source: Barrick Gold annual reports.

<sup>1</sup> 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.

## PERFORMANCE SINCE 25 JUNE 2008 TO 28 FEBRUARY 2010 (PART 1)

CIP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	New Zealand interest rates; credit	Credit	Credit
Neutral	Cash	New Zealand interest rate hedging	Interest rates
Negative	United States interest rate hedging	United States interest rate hedging	Interest rate hedging



COMPARISON	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	5 YEAR PA	7 YEAR PA	SINCE INCEPTION	MAXIMUM DRAWDOWN*
Portfolio*	-0.20%	-0.67%	1.26%	2.87%	-	-	-	8.26%	-1.06%
90 day bank bill rate**	0.21%	0.64%	1.29%	2.75%	-	-	-	7.92%	-0.18%

IMPORTANT: Please refer to the slide that follows for the footnotes relating to this slide.

### PERFORMANCE SINCE 25 JUNE 2008 TO 28 FEBRUARY 2010 (PART 2)

#### Core Income Portfolio

- \* 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.

#### Comparative Index

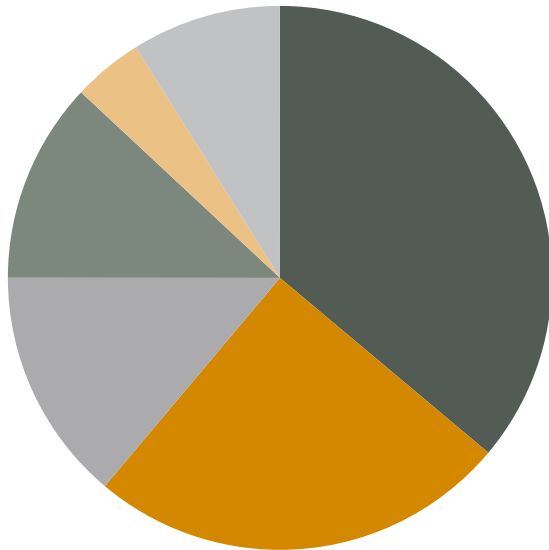
- \*\* The comparative index is based on the 90-day bank bill rate (sourced from Bloomberg). A fee of 0.20% pa has been deducted from the published rate to reflect the fact that bank bills are usually accessed by retail investors through a managed fund. The returns from this index should be higher than the returns from the NZX Call Index over longer periods of time.

#### Maximum Drawdown

- x Returns should be looked at in conjunction with the level of risk associated with an investment. For this reason, the 'maximum drawdown' is included for both the Portfolio and the comparison. The maximum drawdown is a measure of volatility and represents the largest decline in value experienced during the reporting period.

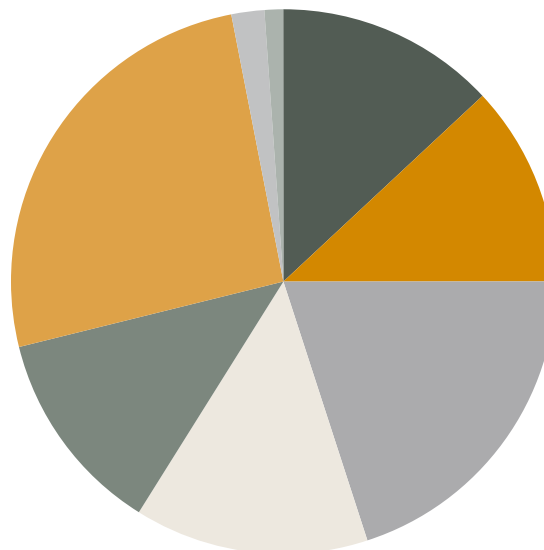
ASSET ALLOCATION (%)

January 2009



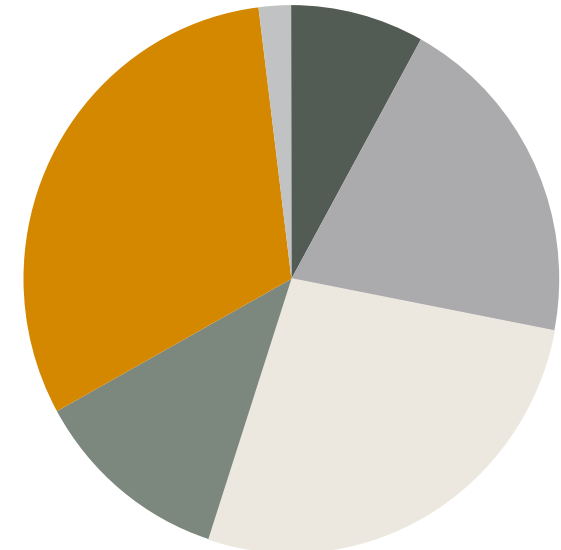
● BANK DEPOSITS & BANK BILLS	36
● GOVT-GUARANTEED BONDS	25
● CORPORATE BONDS	14
● RESIDENTIAL MORTGAGES	12
● OTHER DEBT SECURITIES	4
● LOANS	9
TOTAL	100

January 2010



● BANK DEPOSITS & BANK BILLS	13
● GOVT / GOVT-GUARANTEED BONDS	12
● NZ / AUSTRALIAN CORPORATE BONDS	20
● GLOBAL CORPORATE BONDS	14
● RESIDENTIAL MORTGAGES	12
● EXTERNALLY MANAGED FUNDS	26
● LOANS	2
● DEBT STRATEGIES	1
TOTAL	100

February 2010



● BANK DEPOSITS & BANK BILLS	8
● NZ / AUSTRALIAN CORPORATE BONDS	20
● GLOBAL CORPORATE BONDS	27
● RESIDENTIAL MORTGAGES	12
● EXTERNALLY MANAGED FUNDS	31
● LOANS	2
TOTAL	100

## COMPLETE PORTFOLIO AS AT 28 FEBRUARY 2010 (PART 1)

## PORTFOLIO SUMMARY

Number of securities	46 <sup>1</sup>
Yield	6.1% <sup>2</sup>
Weighted average credit rating	A- <sup>3</sup>
Weighted average credit spread duration	5.6 years
Weighted average interest rate duration	2.7 years

SECTOR / SECURITY	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	EXPECTED MATURITY	S&P RATING	YIELD TO MATURITY <sup>4</sup>
<b>BANK DEPOSITS / BANK BILLS</b>		<b>8.1%</b>			<b>2.6%</b>
Westpac (Bank deposits) <sup>5</sup>	\$2,700,660	4.4%	Current	A1+	2.5%
ANZ (Bank bills)	\$911,955	1.5%	Apr-10	A1+	2.7%
ASB (Bank bills)	\$716,637	1.2%	Apr-10	A1+	2.7%
Kiwibank (Bank bills)	\$651,488	1.1%	Apr-10	A1+	2.7%
<b>NEW ZEALAND / AUSTRALIAN CORPORATE BONDS</b>		<b>20.3%</b>			<b>6.8%</b>
Fonterra	\$2,878,377	4.7%	Mar-15	A+	6.5%
Vector	\$2,274,753	3.7%	Oct-14	BBB+	6.8%
University of Canterbury	\$2,208,114	3.6%	Dec-19	NR	7.1%
Watercare	\$1,487,314	2.4%	May-14	AA-	6.3%
Works Finance NZ	\$1,445,031	2.4%	Sep-12	BBB	7.1%
Westfield	\$1,112,880	1.8%	Sep-15	A	7.1%
Mighty River Power	\$734,775	1.2%	Oct-16	BBB+	7.4%
Meridian Energy	\$291,809	0.5%	Mar-15	BBB+	7.2%
<b>GLOBAL CORPORATE BONDS</b>		<b>26.6%</b>			<b>7.8%</b>
Arcelormittal	\$1,548,199	2.5%	Feb-15	BBB-	7.0%
Citigroup	\$1,467,737	2.4%	May-12	A-	7.5%
Rio Tinto	\$1,353,748	2.2%	May-19	BBB+	7.6%
Pepsico	\$1,315,966	2.1%	Nov-18	AA-	6.9%
BHP Finance	\$1,211,027	2.0%	Apr-19	A+	7.0%
Mosaic Co	\$1,117,463	1.8%	Dec-14	BBB	8.5%
Comcast	\$1,106,480	1.8%	Jul-19	BBB+	7.5%
Goldman Sachs	\$1,105,338	1.8%	Apr-18	A+	7.9%
Telecom Italia	\$1,055,889	1.7%	Sep-34	BBB	9.3%
Barrick Gold	\$1,049,204	1.7%	Jan-20	BBB+	7.5%

<sup>1</sup> The Portfolio often holds more than one security under a given issuer. The 'number of securities' represents the total securities held by the Portfolio. However, in the table all securities from a given issuer are treated as one security. <sup>2</sup> The yield is stated after the deduction of management, custodial and trustee fees. The yield is not the actual return of the Portfolio, nor is it a projection or forecast. The Portfolio's return could be less than the Portfolio's yield. Details of the yield calculation are available on request from New Zealand Funds Management. <sup>3</sup> The weighted average credit rating is calculated excluding the University of Canterbury bond. The University of Canterbury bond has not been rated by a ratings agency. Our internal analysis suggests that if the bond were to be rated, it would each receive an investment-grade rating. <sup>4</sup> The yield to maturity is stated before the deduction of management, custodial and trustee fees. <sup>5</sup> Bank deposits includes cash and FX assets. Note: Rounding may affect the subtotals and totals.

## COMPLETE PORTFOLIO AS AT 28 FEBRUARY 2010 (PART 2)

SECTOR / SECURITY	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	EXPECTED MATURITY	S&P RATING	YIELD TO MATURITY <sup>4</sup>
<b>GLOBAL CORPORATE BONDS</b>		<b>26.6%</b>			<b>7.8%</b>
Incitec Pivot	\$1,040,763	1.7%	Dec-19	BBB-	8.7%
Simon Property Group	\$732,680	1.2%	Feb-20	A-	8.6%
Oracle Corp	\$583,328	1.0%	Apr-38	A	8.2%
Oracle Corp	\$557,947	0.9%	Jul-39	A	8.1%
IBM Corp	\$551,622	0.9%	Nov-32	A+	8.0%
Shell International Finance	\$523,253	0.9%	Sep-19	AA+	6.9%
<b>RESIDENTIAL MORTGAGES</b>		<b>11.9%</b>			<b>7.8%</b>
AMSNZ mortgage security (various issues) <sup>6</sup>	\$4,232,577	6.9%	May-10 to Mar-11	AA- to AAA	8.3%
Westpac mortgage security	\$1,802,096	2.9%	Aug-12	AAA	5.1%
Sapphire mortgage security (various issues)	\$1,268,410	2.1%	Jan-12 to Jun-14	AA	10.3%
<b>EXTERNALLY MANAGED FUNDS</b>		<b>31.7%</b>			<b>7.1%</b>
iShares iBoxx Investment Grade US Corporate Bond Fund	\$14,732,155	24.0%	May-22	BBB	7.2%
iShares Great Britian Corporate Bond Fund	\$2,802,922	4.6%	Dec-25	A-	8.0%
iShares European Corporate Bond Fund	\$1,894,474	3.1%	May-15	A-	5.1%
<b>LOANS</b>		<b>1.7%</b>			<b>7.6%</b>
Private Loan Trust (Fidelity - 29 current loans)	\$1,027,380	1.7%	n/a	NR	7.6%
<b>DEBT STRATEGIES</b>		<b>-0.2%</b>			
Interest rate swaps	\$93,932	0.2%	n/a	n/a	n/a
United States government bonds – Futures	-\$231,856	-0.4%	n/a	n/a	n/a
<b>TOTAL ECONOMIC EXPOSURE<sup>7</sup></b>	<b>\$61,356,529</b>	<b>100.0%</b>			

<sup>4</sup> The yield to maturity is stated before the deduction of management, custodial and trustee fees. <sup>6</sup> Originated and serviced by AMSNZ, a subsidiary of GE Capital. <sup>7</sup> Total economic exposure represents the total economic value of a Portfolio, which is the gross asset value of the Portfolio adjusted for the effect of direct or indirect derivative positions taken by the Portfolio. Note: Rounding may affect the subtotals and totals.

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

Past performance is not necessarily an indication of future returns.

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