

Manager insight – 30 April 2009

The Core Income Portfolio returned 0.67% for the month of April. This takes the six-month performance to 2.80%. By comparison, the Money Market Portfolio returned 2.20% over the same time frame.

Following the sharp rise in three and five-year interest rates during the preceding two months, the Portfolio was positioned in early April to be more sensitive to interest rate changes. This reflected an expectation that interest rates would decline. The repositioning was predominantly achieved through the use of interest rate swap contracts. These contracts converted a portion of the Portfolio's large cash holding into a longer-term interest rate position, thus increasing the Portfolio's sensitivity to interest rate movements. This meant that the Portfolio was well positioned and benefited from the Reserve Bank of New Zealand's decision to lower the Official Cash Rate and its clear signal that New Zealand interest rates are likely to be lower for longer.

Bond insight: Watercare

Two new corporate holdings were added to the Portfolio in April – Watercare (6.8% yield to maturity) and Vector (7.5% yield to maturity). Both companies are Auckland-based 'utilities' and the bonds purchased are senior obligations. This month we look at the Watercare business in detail while more background on the Vector bond will be provided in next month's insight. Watercare Services Limited is New Zealand's largest company in the water and

wastewater industry. Watercare Services Limited is New Zealand's largest company in the water and wastewater industry. The company supplies bulk water to the Auckland region, an area of approximately 340 square kilometers through a regional water network. The water is supplied to six water retailers (Metrowater, North Shore City Council, Manukau Water, United Water, Rodney District Council, Waitakere City Council) which in turn supply the water to customers in the Auckland region.

Watercare supplies an average of 374,000 cubic metres of water daily. The water is drawn from 12 sources comprising 10 dams, the Waikato River and an aquifer at Onehunga. Watercare also operates a regional wastewater network, receiving wastewater from four of the region's councils. It treats an average of 313,000 cubic metres of wastewater a day at the Mangere Wastewater Treatment Plant.

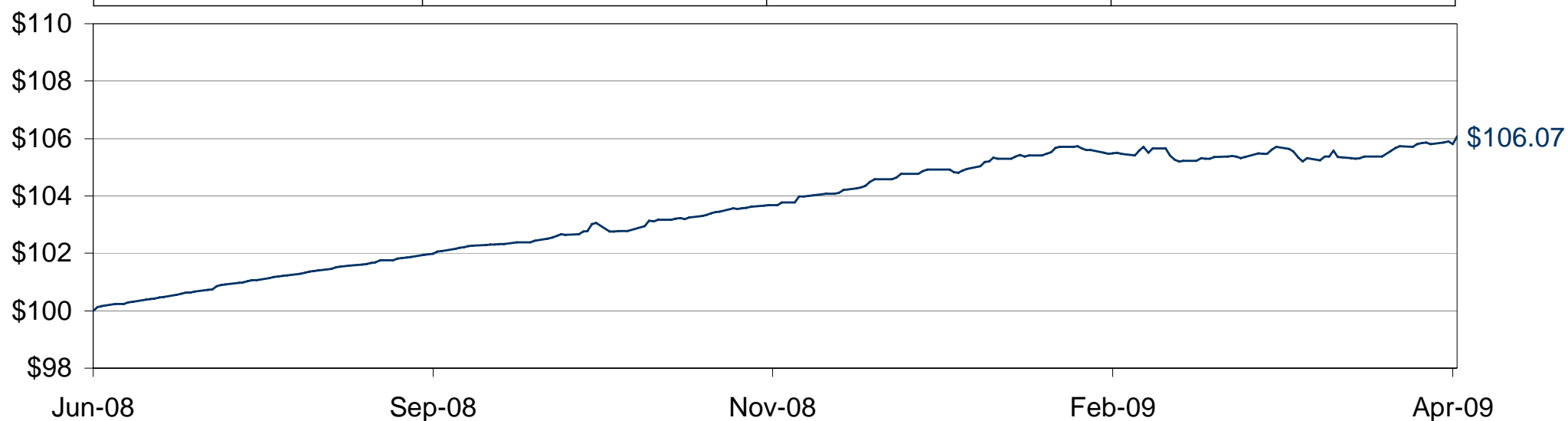
The nature of the business means that large capital investments are required. Consequently, Watercare does maintain quite high levels of debt relative to its earnings. This high debt is mitigated by the fact that bonds issued by Watercare benefit from both a guarantee from the Auckland city council and a coupon increase (known as a step up) if the issues' credit rating is lowered. In addition to this the business has a strong ability to service its debt as demonstrated by EBITDA exceeding interest expense by 4.3 times and cash flows from operations exceeding interest expense by 3.0 times.

Core Income Portfolio



Performance since 25 June 2008 to 30 April 2009

Performance attribution	One month	Three month	Six month
Positive	Running yield	-	-
Neutral	Credit spreads	-	-
Negative	n/a	-	-



One-month return	Three-month return	Six-month return	One-year return	Since inception of strategy pa
0.67%	0.35%	2.80%	-	-

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 30 April 2009

Portfolio summary

Number of securities	34*
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		33%			
ANZ (Bank bills)	\$6,190,461	12%	Apr-09	A1+	3.5%
ASB Bank (Bank bills)	\$2,770,166	5%	Jun-09	A1+	3.3%
BNZ (Bank bills)	\$2,418,555	5%	Sep-09	A1+	3.2%
Kiwibank (Bank bills)	\$2,983,081	6%	Sep-09	A1+	3.2%
Westpac (Bank deposits)	\$416,705	1%	Current	A1+	3.5%
Westpac (Bank bills)	\$2,882,758	5%	May-09	A1+	3.4%
Corporate bonds		23%			
Telstra Corporation	\$2,268,916	4%	Nov-12	A	6.6%
Citigroup	\$1,298,742	2%	May-12	A	12.1%
Vodafone	\$2,531,154	5%	Jan-13	A-	8.3%
Fonterra	\$3,203,017	6%	Mar-15	A+	8.3%
Woolworths	\$3,172,049	6%	Nov-11	A-	7.8%
Government guaranteed bonds		25%			
ANZ	\$1,288,089	2%	Dec-10	AAA	3.8%
Commonwealth Bank of Australia	\$3,642,919	7%	Dec-13	AAA	5.2%
National Australia Bank	\$1,283,037	2%	Jan-12	AAA	4.6%
Westpac	\$5,248,443	10%	Dec-11	AAA	4.4%
BNZ	\$1,736,689	3%	Feb-14	AAA	5.9%
Residential mortgages		10%			
AMSNZ mortgage security (various issues)***	\$4,391,182	8%	May-10 to Mar-11	AA- to AAA	10.7%
Sapphire New Zealand mortgage security (various issues)	\$1,231,146	2%	Feb-11 to Jul 11	AA	17.7%
Other debt securities		3%			
Titan (portfolio of Australian & US corporate loans)	\$1,861,139	3%	Jun-09	AA	21.3%
Loans		5%			
Private Loan Trust (Fidelity - 32 current loans)	\$2,817,958	5%	Jun-09	NR	7.5%
Total	\$53,636,205	100%			

Interest rate swaps, notional value ~ \$8m. Kiwi dollar swaps increase the portfolio duration by around 4 months and Australian dollar swaps decrease duration by around 4 months

*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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