

MANAGER INSIGHT – 30 APRIL 2010

The Portfolio returned 0.64%¹ in April, taking the year to date performance to 1.62%¹. The performance for the month was predominantly driven by the performance of the Portfolio's corporate bonds, both domestic and global. This month, the risk management models detracted a small amount of value.

Bond insight: Fonterra

One of the core New Zealand bond holdings in the Portfolio is Fonterra's 2015 bond issue, which pays a coupon of 7.75%. Recently, Fonterra released their half-year financial report and this 'Manager insight' takes a closer look at this release to review how Fonterra has performed over the last six months.

For the six months to 31 January 2010, Fonterra's revenue was \$7.7 billion. This was \$300 million lower than the \$8 billion revenue generated for the first half of 2009. This small decline in revenue reflected lower sales prices which were partially offset by higher sales volumes. This may appear to be at odds with media reports of the sharp recovery in dairy prices observed in Fonterra's online auctions. However, this is consistent, given the settlement time for the auction contracts, as the contracts settle over three periods – 2 months, 3 to 5 months and 6 to 8 months. This means that the bulk of the price rises will flow through into the revenue numbers for the second half of the year.

Importantly for debt investors, the company's interest costs were significantly lower, as net interest costs declined from \$368 million to \$172 million. This was attributable to both lower interest rates and lower debt levels.

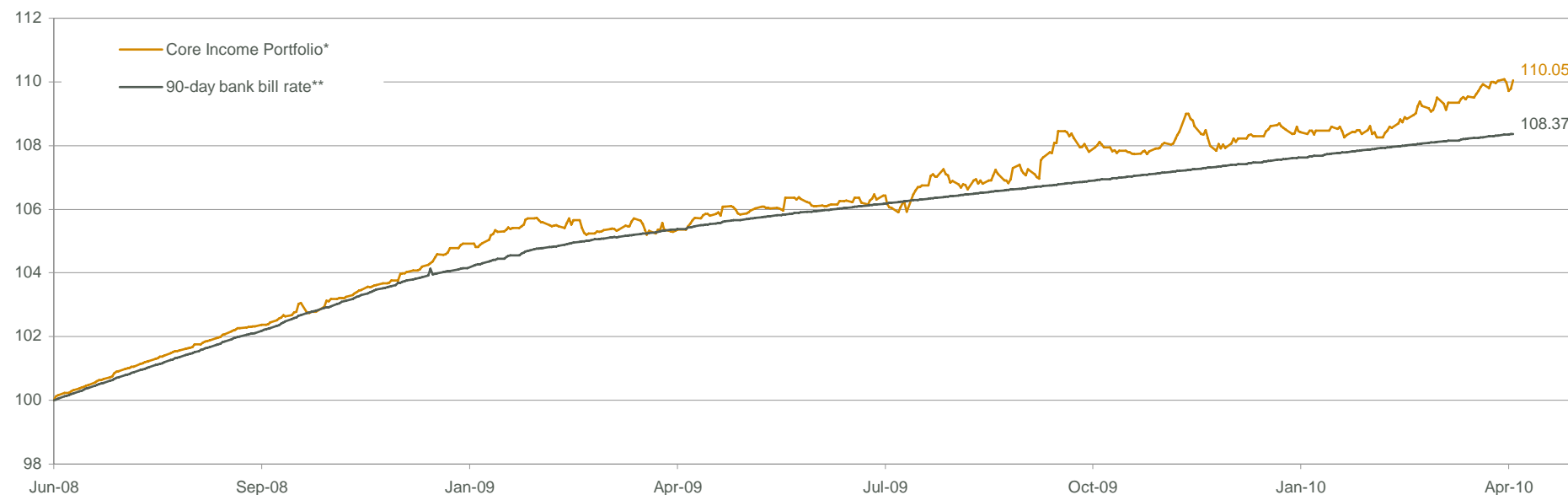
For the corresponding period in 2009, Fonterra experienced a significant build-up in their inventory. This led to a spike in the company's total debt level, as it has to fund the additional product sitting in the warehouses. With improved sales volumes this year, inventories have fallen. This has enabled the company to reduce its debt from \$7.4 billion to \$5.7 billion and, in turn, the gearing ratio has decreased from 61.5% to 53.3%. This puts the company well on course for achieving their stated target gearing level of 50% or less by 31 July 2010.

The company also provided an update on the efforts to improve the co-operative capital structure. The changes are aimed at ensuring that Fonterra can maintain a permanent base of capital. Under the current structure, Fonterra must repurchase farmers' shares if they no longer supply Fonterra. Consequently, it is possible that Fonterra would lose the bulk of its capital base if (under an extreme scenario) farmers choose en masse to supply a competitor. The initial proposed changes are: 1) the establishment of up to 20% dry shares and dividends on those shares and 2) a share price that anticipates trading amongst farmers. These changes received almost 90% support from farmers. The broad farmer acceptance sets the groundwork for a final move towards farmers buying and selling shares amongst themselves and thus, relieving Fonterra from the obligation to repurchase the shares of exiting farmers. Ultimately, these steps will give Fonterra greater access to, and certainty over, their equity capital base. This, in turn, reduces the need for the company to take on further debt in the future, which is a positive for existing bond holders such as the Portfolio.

¹ 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 30 APRIL 2010 (PART 1)

CIP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	NZ & global corporate bonds; credit	NZ & global corporate bonds; credit	NZ & global corporate bonds; credit
Neutral	Interest rates; cash	NZ interest rate hedging	Cash
Negative	Interest rate hedging	US 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*	0.64%	1.45%	2.04%	3.74%	-	-	-	10.05%	-1.06%
90 day bank bill rate**	0.20%	0.63%	1.28%	2.61%	-	-	-	8.37%	0.18%

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

PERFORMANCE SINCE 25 JUNE 2008 TO 30 APRIL 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

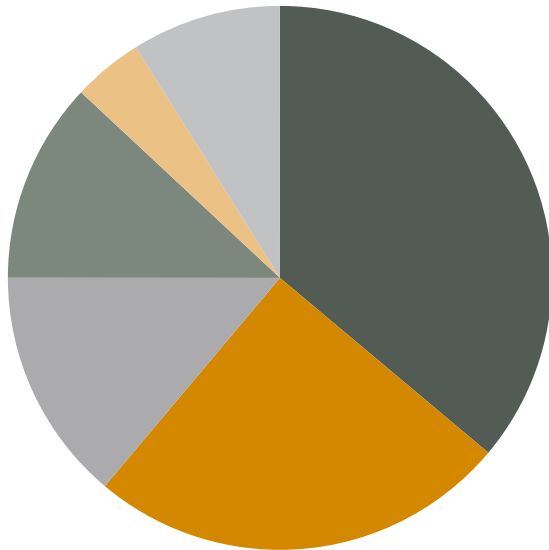
- ** The comparative index is based on the 90-day bank bill rate (sourced from Bloomberg). A fee of 0.20% pa has been deducted from the published rate to reflect the fact that bank bills are usually accessed by retail investors through a managed fund. The returns from this index should be higher than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

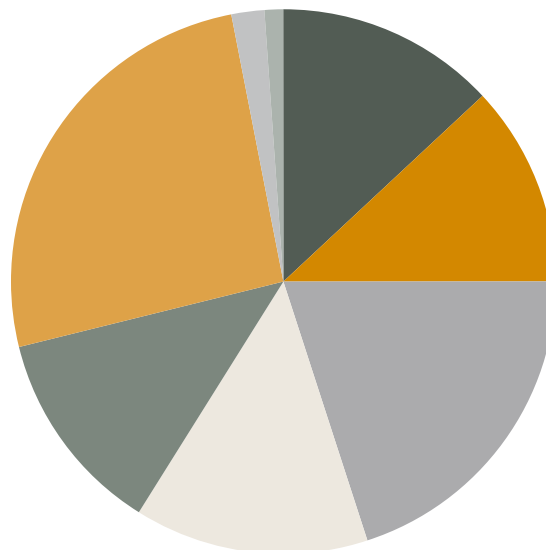
ASSET ALLOCATION (%)

January 2009



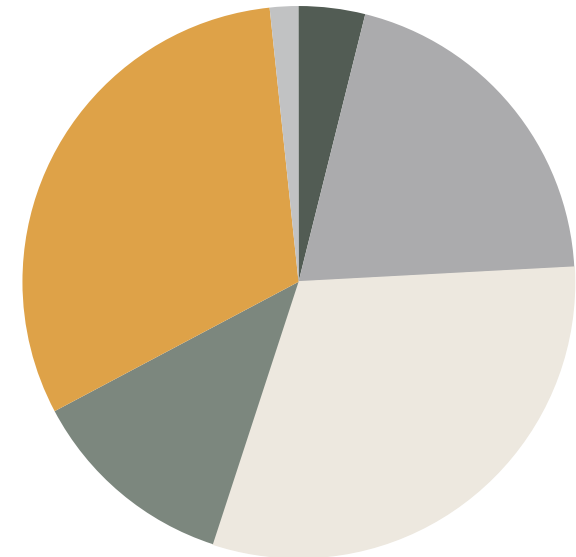
● BANK DEPOSITS & BANK BILLS	36
● GOVT-GUARANTEED BONDS	25
● CORPORATE BONDS	14
● RESIDENTIAL MORTGAGES	12
● OTHER DEBT SECURITIES	4
● LOANS	9
TOTAL	100

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

April 2010



● BANK DEPOSITS & BANK BILLS	4
● NZ / AUSTRALIAN CORPORATE BONDS	20
● GLOBAL CORPORATE BONDS	31
● RESIDENTIAL MORTGAGES	12
● EXTERNALLY MANAGED FUNDS	31
● LOANS	2
TOTAL	100

COMPLETE PORTFOLIO AS AT 30 APRIL 2010 (PART 1)

PORTFOLIO SUMMARY

Number of securities	50 ¹
Yield	5.9% ²
Weighted average credit rating	BBB+ ³
Weighted average credit spread duration	5.3 years
Weighted average interest rate duration	4.9 years

SECTOR / SECURITY	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	EXPECTED MATURITY	S&P RATING	YIELD TO MATURITY ⁴
BANK DEPOSITS / BANK BILLS		3.8%			2.5%
Westpac (Bank deposits) ⁵	\$2,303,599	3.8%	Current	A1+	2.5%
ASB 15/06/2010 (Bank bill)	\$3,113	0.0%	Jun-10	A1+	2.6%
Kiwibank 15/06/2010 (Bank bill)	\$3,113	0.0%	Jun-10	A1+	2.6%
ANZ 15/06/2010 (Bank bill)	\$2,802	0.0%	Jun-10	A1+	2.6%
ANZ 16/06/2010 (Bank bill)	\$623	0.0%	Jun-10	A1+	2.7%
NEW ZEALAND / AUSTRALIAN CORPORATE BONDS		20.3%			7.0%
University of Canterbury 7.25% 15/12/2019	\$1,768,187	2.9%	Dec-19	NR	7.2%
Fonterra 7.57%10/03/2015	\$1,738,072	2.9%	Mar-15	A+	6.5%
Vector 7.8% 15/10/2014	\$1,513,165	2.5%	Oct-14	BBB+	7.0%
Watercare 6.785% 15/05/2014	\$1,488,529	2.5%	May-14	AA	6.4%
Contact Energy 7.855% 13/04/17	\$1,468,626	2.4%	Apr-17	BBB	7.9%
Works Finance NZ 9.65% 15/09/2012	\$1,454,635	2.4%	Sep-12	BBB	7.0%
Westfield 5.75% 02/09/2015	\$1,086,032	1.8%	Sep-15	A	6.8%
Mighty River Power 7.55% 12/10/2016	\$740,276	1.2%	Oct-16	BBB+	7.4%
The Warehouse 7.3% 15/06/2015	\$734,551	1.2%	Jun-15	NR	7.3%
Meridian Energy 7.15% 16/03/2015	\$300,814	0.5%	Mar-15	BBB+	6.6%
GLOBAL CORPORATE BONDS		30.8%			7.4%
Citigroup 7.825% 18/05/2012	\$1,764,159	2.9%	May-12	A-	7.1%
Rio Tinto 9% 01/05/2019	\$1,310,067	2.2%	May-19	BBB+	7.4%
Arcelormittal 9% 15/02/2015	\$1,240,148	2.0%	Feb-15	BBB-	6.4%
BHP Finance 6.5% 01/04/2019	\$1,180,437	1.9%	Apr-19	A+	6.7%
Mosaic 7.375% 01/12/2014	\$1,087,323	1.8%	Dec-14	BBB	8.1%
Comcast 5.7% 01/07/2019	\$1,080,397	1.8%	Jul-19	BBB+	7.3%
Goldman Sachs 6.15% 01/04/2018	\$1,051,920	1.7%	Apr-18	A+	8.0%
Incitec Pivot 6% 10/12/2019	\$1,045,963	1.7%	Dec-19	BBB-	8.0%
Barrick Australia 4.95% 15/01/2020	\$1,040,233	1.7%	Jan-20	BBB+	7.1%

¹ 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. ² 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. ³ The weighted average credit rating is calculated excluding the University of Canterbury and The Warehouse bonds. The University of Canterbury and The Warehouse bonds have not been rated by a ratings agency. Our internal analysis suggests that if the bonds were to be rated, they would each receive an investment-grade rating. ⁴ The yield to maturity is stated before the deduction of management, custodial and trustee fees. ⁵ Bank deposits includes cash and FX assets. Note: Rounding may affect the subtotals and totals.

COMPLETE PORTFOLIO AS AT 30 APRIL 2010 (PART 2)

SECTOR / SECURITY	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	EXPECTED MATURITY	S&P RATING	YIELD TO MATURITY ⁴
GLOBAL CORPORATE BONDS		30.8%			7.4%
AT&T 5.8% 15/02/19	\$1,005,906	1.7%	Feb-19	A	6.9%
JP Morgan Chase 6% 01/10/17	\$979,643	1.6%	Oct-17	AA	7.3%
General Mills 5.65% 15/02/19	\$944,062	1.6%	Feb-19	BBB+	6.8%
Altria Group 9.25% 06/08/19	\$943,554	1.6%	Aug-19	BBB+	8.3%
Telefonica 5.877% 15/07/19	\$916,082	1.5%	Jul-19	BBB+	7.5%
Simon Property Group 5.65% 01/02/2020	\$747,547	1.2%	Feb-20	A-	7.7%
Pepsico 7.9% 01/11/2018	\$638,248	1.1%	Nov-18	AA-	6.7%
Oracle 6.5% 15/04/2038	\$571,647	0.9%	Apr-38	A	8.0%
Oracle 6.125% 08/07/2039	\$552,866	0.9%	Jul-39	A	7.8%
IBM 5.875% 29/11/2032	\$539,443	0.9%	Nov-32	A+	7.8%
RESIDENTIAL MORTGAGES		12.0%			6.4%
Westpac 2009-1 A mortgage security 21/01/2041	\$1,722,071	2.8%	Aug-12	AAA	4.9%
AMSNZ V 3 mortgage security 15/03/2032 ⁶	\$1,434,241	2.4%	Mar-11	AA-	6.7%
AMSNZ IV 3 mortgage security 15/10/2031 ⁶	\$1,082,187	1.8%	Dec-10	AA-	6.5%
AMSNZ III 3 mortgage security 15/05/2031 ⁶	\$731,640	1.2%	Jun-10	AA-	5.9%
Sapphire III NZ 2006 MA mortgage security 13/07/2037	\$688,197	1.1%	Oct-11	AA	8.9%
Sapphire 2007-1 MA mortgage security 13/05/2041	\$574,480	0.9%	Oct-14	AA	9.9%
AMSNZ IV 2 mortgage security 15/10/2031 ⁶	\$543,926	0.9%	Dec-10	AAA	4.8%
AMSNZ V 2 mortgage security 15/03/2032 ⁶	\$462,753	0.8%	Feb-11	AAA	5.1%
EXTERNALLY MANAGED FUNDS		31.5%			7.0%
iShares iBoxx Investment Grade US Corporate Bond Fund	\$14,471,374	23.9%	May-22	BBB+	7.1%
iShares Great Britian Corporate Bond Fund	\$2,761,086	4.6%	Dec-25	A-	7.9%
iShares European Corporate Bond Fund	\$1,817,790	3.0%	May-15	A-	5.1%
LOANS		1.7%			7.6%
Private Loan Trust (Fidelity - 29 current loans)	\$1,027,092	1.7%	n/a	NR	7.6%
DEBT STRATEGIES		0.0%			
New Zealand/Australia interest rate hedges	\$5,656,046	9.3%	n/a	n/a	n/a
International interest rate hedges	-\$6,035,166	-10.0%	n/a	n/a	n/a
New Zealand/Australia interest rate hedges - cash	-\$5,656,046	-9.3%	n/a	n/a	n/a
International interest rate hedges - cash	\$6,035,166	10.0%	n/a	n/a	n/a
TOTAL ECONOMIC EXPOSURE	\$60,562,614	100.0%			

⁴ The yield to maturity is stated before the deduction of management, custodial and trustee fees. ⁶ Originated and serviced by AMSNZ, a subsidiary of GE Capital. ⁷ 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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