

Manager insight – 30 June 2009

The Core Income Portfolio returned -0.01%¹ for the month of June. This takes the six-month performance to 1.37%¹. The modest performance in June does demonstrate the value added by the manager actively hedging the Portfolio against rising interest rates. The table below shows the change in New Zealand and Australian interest rates during June and the resulting impact on bond prices. Currently, a third of the Portfolio is invested in assets that are sensitive to interest rate changes. Had the manager not actively hedged the Portfolio, these interest rate increases would have resulted in the Portfolio declining by approximately 0.60% during June.

Market	31 May	30 June	% change	Price change
NZ 3-year swap rate	4.2%	4.5%	-0.3%	-1.0%
NZ 5-year swap rate	5.0%	5.3%	-0.3%	-1.5%
Aust. 3-year swap rate	4.3%	4.8%	-0.6%	-1.6%
Aust. 5-year swap rate	5.0%	5.5%	-0.6%	-2.6%

The active management of interest rate risk is just one of the ways the manager looks to add value to the Portfolio. Another example is a recent initiative in the area of corporate bonds. In order to broaden and enhance the Portfolio's holding of corporate bonds, but still meet a defensive investment criteria, an allocation has been made to high-quality bonds issued by US and European companies.

Adding global corporate bonds to the Portfolio has a number of benefits. First, it provides a much larger universe of well know names. Secondly, these bonds can be very easily bought and sold, which improves the manager's ability to respond to market changes. Thirdly, the manager can access companies with very strong credit profiles. Microsoft, for example, earns enough each year to cover the interest on its debt 270x. Finally, it increases the diversity of the Portfolio and reduces risk (ie less of the Portfolio is tied to the performance of the New Zealand economy).

As a result, a number of well known corporate names have been added which will be familiar to most New Zealanders – companies such as Microsoft, BP, IBM and Shell.

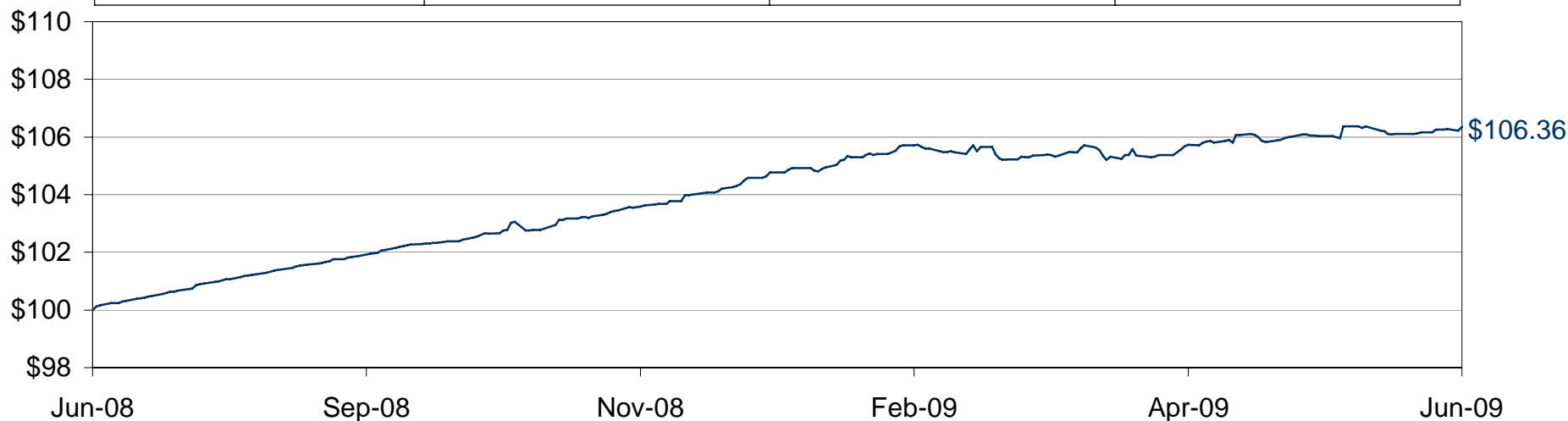
Shell is one of the world's largest integrated oil companies. It has been operating since the early 1900s and has operations in over 100 countries. In 2008, Shell generated a massive US\$458 billion in revenues. During the downturn the large oil companies have performed well because they entered the period with extremely strong balance sheets. At the end of the last financial year, Shell had net debt (total debt less cash) to equity of only 6.3%. Cash from operations was 1.9x total debt, indicating that Shell generates enough cash each year to repay its outstanding debt almost twice over. The combination of a strong balance sheet and a positive long-term sector outlook makes Shell bonds a compelling investment.

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 30 June 2009

Performance attribution	One month	Three month	Six month
Positive	Credit; interest rate hedge	Credit; interest rate hedge	Interest rates
Neutral	Cash	Cash	Cash
Negative	Medium-term interest rates	Medium-term interest rates	Credit



One-month return	Three-month return	Six-month return	One-year return	Since inception of strategy pa
-0.01%	0.94%	1.37%	6.10%	6.27%

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. Strategy implemented on 25 June 2008.

Portfolio summary as at 30 June 2009

Portfolio summary

Number of securities	38*
Weighted average running yield (approximately)	4.9%**
Weighted average credit rating	AA-

Sector	Portfolio value	Proportion of portfolio
Bank deposits / Bank bills		31%
Corporate bonds		35%
New Zealand / Australian government-guaranteed bonds		22%
Residential mortgages		9%
Loans		2%
Total	\$57,971,127	100%

Interest rate swaps, notional value ~ \$29m.

Core Income Portfolio

Complete portfolio as at 30 June 2009

Portfolio summary					
Number of securities		38*			
Weighted average running yield (approximately)		4.9%**			
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		31%			
ANZ (Bank bills)	\$3,770,807	7%	Sep-09	A1+	2.8%
ASB (Bank bills)	\$2,988,522	5%	Sep-09	A1+	2.8%
BNZ (Bank bills)	\$3,342,161	6%	Sep-09	A1+	2.8%
Kiwibank (Bank bills)	\$4,039,917	7%	Sep-09	A1+	2.8%
Westpac (Bank deposits)****	\$897,959	2%	Current	A1+	2.5%
Westpac (Bank bills)	\$3,211,741	6%	Sep-09	A1+	2.8%
Corporate bonds		35%			
Telstra Corporation	\$2,148,750	4%	Nov-12	A	6.9%
Citigroup	\$1,270,781	2%	May-12	A-	11.2%
Vodafone	\$2,464,141	4%	Jan-13	BBB+	7.8%
Fonterra	\$2,563,954	4%	Mar-15	A+	8.0%
Woolworths	\$2,698,441	5%	Nov-11	A-	7.1%
Watercare	\$1,353,752	2%	May-14	AA	7.3%
Vector	\$2,058,765	4%	Oct-14	BBB+	8.0%
Shell International	\$825,560	1%	Mar-14	AA+	5.6%
GlaxoSmithKline PLC	\$856,923	1%	May-18	A+	6.9%
IBM Corp	\$950,789	2%	Oct-18	A+	7.3%
Microsoft Corp	\$805,580	1%	Jun-19	AAA	6.4%
Oracle Corp	\$862,418	1%	Apr-18	A	6.9%
AT&T Inc	\$814,939	1%	Feb-19	A	7.8%
EDF SA	\$885,978	2%	Jan-19	A+	7.4%
New Zealand / Australian government guaranteed bonds		22%			
ANZ	\$1,078,817	2%	Dec-10	AAA	3.2%
Commonwealth Bank of Australia	\$3,427,092	6%	Dec-13	AAA	5.4%
National Australia Bank	\$1,069,796	2%	Jan-12	AAA	4.8%
Westpac	\$5,474,222	9%	May-12	AAA	4.4%
BNZ	\$1,646,290	3%	Feb-14	AAA	6.0%
Residential mortgages		9%			
AMSNZ mortgage security (various issues)*****	\$3,903,027	7%	May-10 to Mar-11	AA- to AAA	11.7%
Sapphire New Zealand mortgage security (various issues)	\$1,185,017	2%	Jul-11 to Jan-12	AA	15.8%
Loans		2%			
Private Loan Trust (Fidelity - 32 current loans)	\$1,374,986	2%	-	NR	7.5%
Total	\$57,971,127	100%			

Interest rate swaps, notional value ~ \$29m.

*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 Portfolio, nor is it a projection or forecast. ***The yield to maturity is stated before the deduction of management, custodial and trustee fees. ****Bank deposits includes cash and FX assets. *****Originated and serviced by AMSNZ, a subsidiary of GE Capital. 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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