

Portfolio overview – 31 January 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 – 31 January 2009

Throughout 2008, the Core Income Portfolio has been very defensively positioned with a high weighting to cash and short credit duration. This has shielded the Portfolio from the turmoil in global markets.

During December, the strategy changed to reduce the level of cash held in the Portfolio and increase the interest rate duration of the Portfolio. We have looked to achieve this while maintaining a high level of liquidity in the Portfolio.

In order to achieve the above changes, we added a number of Australian bank senior bond issues that are guaranteed by the Australian government. These issues are denominated in US and Australian dollars (hedged back to NZ dollars). One of the reasons we like these securities is that they provide significantly better yields (approx 1%) than government bonds of the same maturity – even though they have similar associated risk.

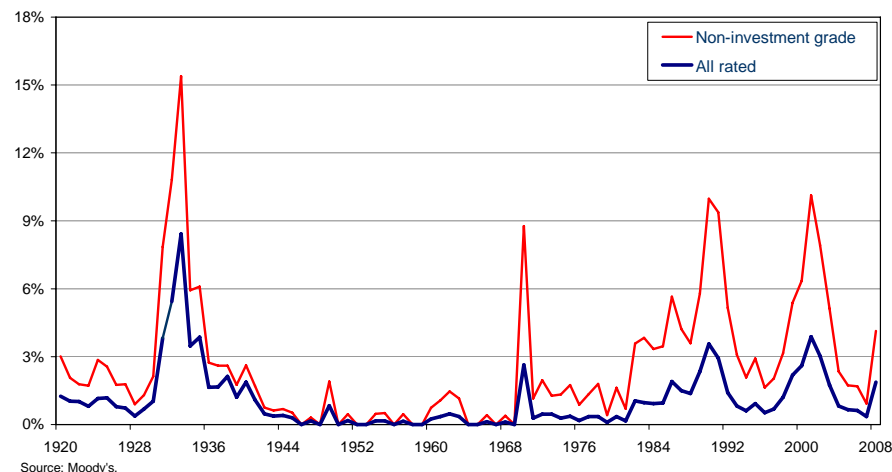
This allocation resulted in a strong finish to the year thanks to a sharp move lower in global interest rates. The portfolio performance was 1.10%¹ in December and 0.75%¹ in January.

Looking forward, we expect corporate defaults to increase significantly during 2009 and for markets to be unforgiving towards lower-rated issuers.

Consequently, our focus will be on owning a diversified portfolio of highly-rated corporate bonds that operate in defensive sectors – for example, Telecom and Fonterra – together with mortgages and direct bank loans via Titan bonds. This should hold investors in better stead than falling into the retail investor trap of only holding one or two corporate bonds.

Bond insight: Default cycle

Moody's annual issuer-weighted corporate default rates
1920-2008

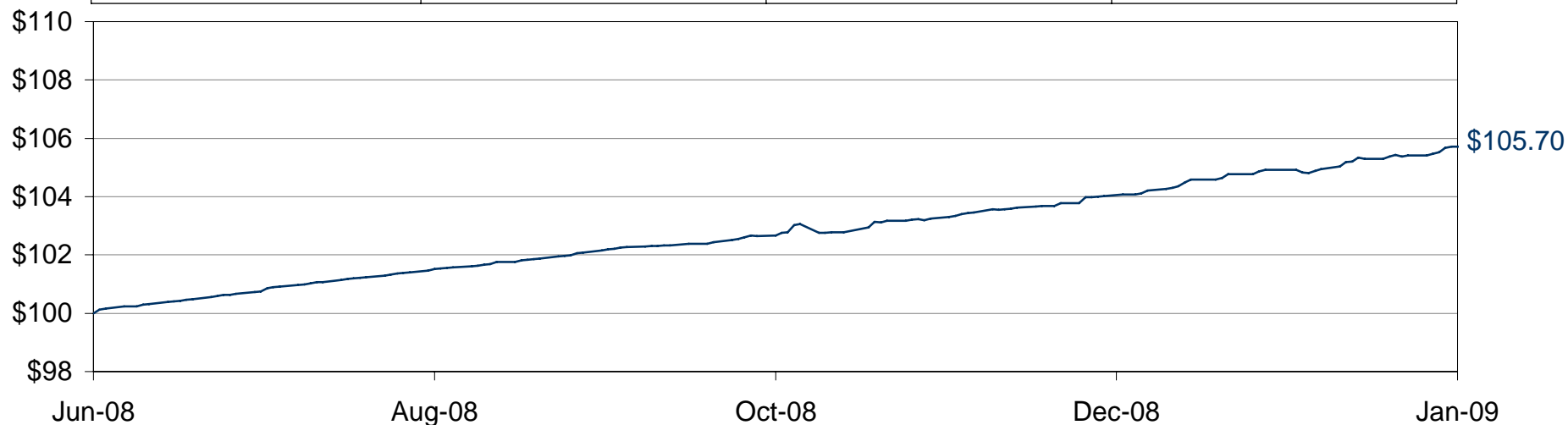


¹ Returns are stated after fund fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

Core Income Portfolio

Performance since 25 June 2008 to 31 January 2009

Performance attribution	One month	Three month	Six month
Positive	Long duration positions	-	-
Neutral	Credit spreads	-	-
Negative	n/a	-	-



One-month return	Three-month return	Six-month return	One-year return	Since inception of strategy pa
0.75%	2.44%	4.59%	-	-

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 22 January 2009

Portfolio summary

Number of securities	29*
Leverage utilised	Zero
Weighted average running yield (approximately)	6.6%**
Weighted average credit rating	AA-

Sector / Security	Value of portfolio	Proportion of portfolio	Maturity date / Expected average life date	S&P rating
Bank deposits / Bank bills		36%		
ANZ (Bank bills)	\$7,341,358	15%	Apr-09	A1+
ASB Bank (Bank bills)	\$2,101,618	4%	Apr-09	A1+
BNZ (Bank bills)	\$3,106,154	6%	Mar-09	A1+
Kiwibank (Bank bills)	\$1,876,158	4%	Apr-09	A1+
Westpac (Bank deposits)	\$5,123	0%	Current	A1+
Westpac (Bank bills)	\$3,537,498	7%	Apr-09	A1+
Corporate bonds		14%		
Telstra Corporation	\$2,432,370	5%	Nov-12	A
Citigroup	\$1,468,933	3%	May-12	A
Fonterra	\$2,936,549	6%	Feb-09	A+
Government guaranteed bonds		25%		
ANZ	\$1,428,133	3%	Dec-10	AAA
Commonwealth Bank Australia	\$3,852,067	8%	Dec-13	AAA
National Australia Bank	\$1,439,227	3%	Jan-12	AAA
Westpac Bank	\$5,858,282	12%	Dec-11	AAA
Residential mortgages		12%		
AMSNZ mortgage security (various issues)***	\$4,590,074	9%	May-10 to Mar-11	AA- to AAA
Sapphire New Zealand mortgage security (various issues)	\$1,337,398	3%	Feb-11 to Jul 11	AA
Other debt securities		4%		
Titan (portfolio of Australian & US corporate loans)	\$1,960,108	4%	Jun-09	AA
Loans		9%		
Private Loan Trust (Fidelity - 32 current loans)	\$4,749,227	9%	Jun-09	NR
Total	\$50,020,277	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. 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.

DISCLAIMER: This document has been provided for information purposes only. The content of this document is not intended as a substitute for specific professional advice on investments, financial planning or any other matter.

While the information provided in this document is stated accurately to the best of our knowledge and belief, New Zealand Funds Management Limited, its directors, employees and related parties accept no liability or responsibility for any loss, damage, claim or expense suffered or incurred by any party as a result of reliance on the information provided and opinions expressed in this document except as required by law.