MANAGER INSIGHT – 31 JANUARY 2010

The new year has brought plenty of interest from corporates looking to raise debt through the bond market. Fonterra, Mighty River Power, Auckland City Council and Meridian have all announced plans for bond offers. The first cab off the rank for the year was Meridian. Meridian raised a total of NZ$200 million in five- and seven-year bonds. The offer was heavily oversubscribed, reflecting a strong degree of interest from both retail and institutional investors. New Zealand Funds Management was able to secure a holding which will appear in the Portfolio in February.

Meridian is a state-owned electricity generator and retailer. It is the largest generator in the country, serving 187,000 customers. The majority of Meridian's generation comes from its nine hydro plants in the South Island. Meridian has also invested in wind generation.

Being a hydrology-based generator means that Meridian is a relatively low-cost producer. It is not exposed to the increases in gas prices facing thermal-based generators as gas from the Maui field runs down. Profits can, however, be impacted in dry years when lake levels are low. Focusing on renewable energy also means that Meridian will be well placed if an emissions-based trading scheme is introduced.

The Government recently announced a number of changes that will impact the electricity sector. In summary, Meridian will likely lose some South Island generation capacity and increase its exposure to the North Island electricity market. The changes should not materially impact Meridian's ability to repay debt and interest.

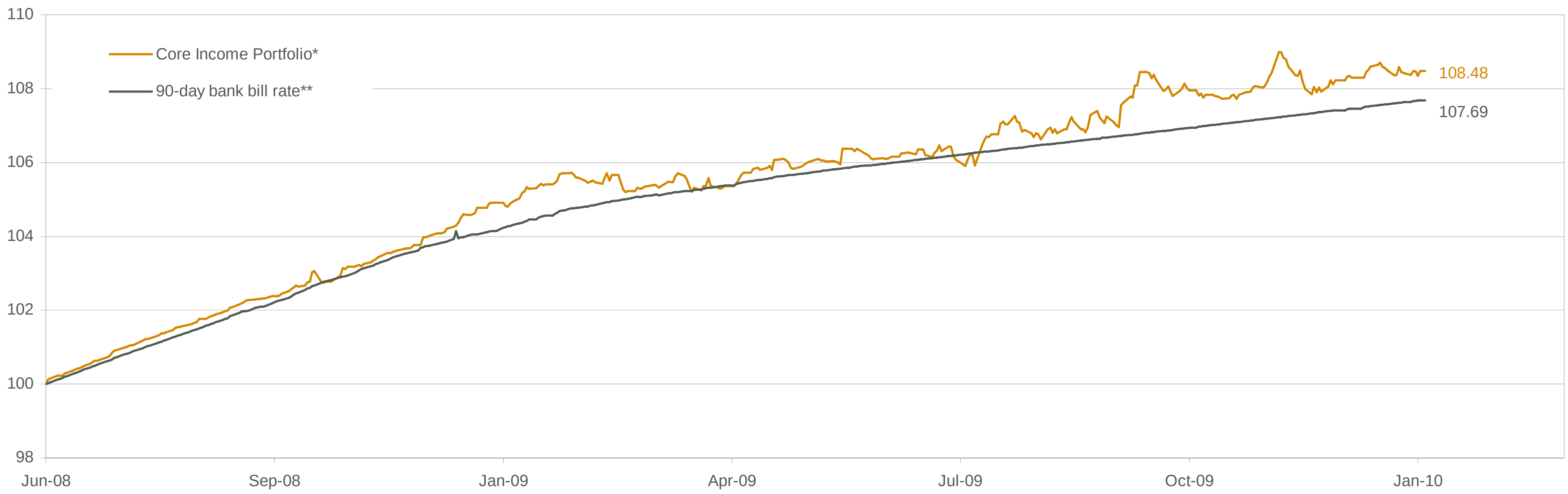
Meridian's credit metrics stack up well in comparison to peers. As the accompanying table shows, Meridian has both lower leverage and better interest cover than the majority of similarly rated peers in New Zealand and the United States.

COMPANY	RATING	LEVERAGE (DEBT/EBITDAF[1])	INTEREST COVER (EBITDAF[1]/INTEREST)
Meridian	BBB+	2.4x	5.6x
NEW ZEALAND UTILITIES			
TrustPower	Unrated	2.8x	5.0x
Mighty River Power	BBB+	1.4x	9.8x
Contact Energy	BBB	2.5x	5.0x
Genesis Energy	BBB+	3.1x	4.6x
UNITED STATES UTILITIES			
Pacific Gas and Electric	BBB+	2.8x	6.0x
Midamerican Energy	BBB+	5.3x	3.0x
Oncor Electric Delivery	BBB+	4.4x	3.8x
Commonwealth Edison	BBB+	4.5x	3.5x
Sempra Energy	BBB+	4.0x	6.6x
Center-Point Energy	BBB+	5.9x	3.1x
Cleveland Electric	BBB+	5.9x	2.6x

Source: JP Morgan, Annual Reports, NZ Funds analysis. [1] EBITDAF is earnings before interest, tax, depreciation and financial instruments.

PERFORMANCE SINCE 25 JUNE 2008 TO 31 JANUARY 2010 (PART 1)

CIP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	Interest rates; credit	Credit	Credit
Neutral	Cash	New Zealand interest rate hedging	Interest rates
Negative	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[x]
Portfolio*	0.17%	0.58%	1.60%	2.61%	-	-	-	8.48%	-1.06%
90 day bank bill rate**	0.21%	0.64%	1.29%	2.85%	-	-	-	7.69%	-0.18%

[1] Pre-tax equivalent gross return. IMPORTANT: Please refer to the slide that follows for the footnotes relating to this slide.

PERFORMANCE SINCE 25 JUNE 2008 TO 31 JANUARY 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

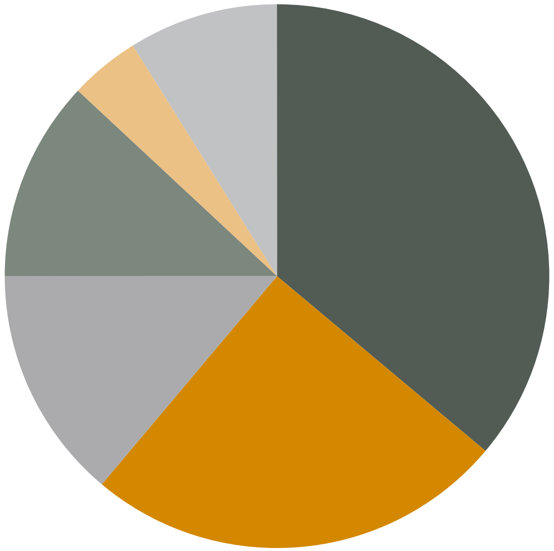
** The comparative index is based on the 90-day bank bill rate (sourced from Bloomberg). A fee of 0.20% pa has been deducted from the published rate to reflect the fact that bank bills are usually accessed by retail investors through a managed fund. The returns from this index should be higher than the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

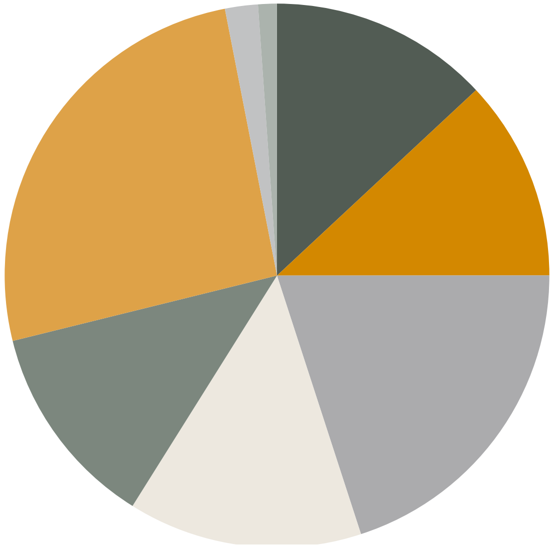
ASSET ALLOCATION (%)

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

COMPLETE PORTFOLIO AS AT 31 JANUARY 2010 (PART 1)

PORTFOLIO SUMMARY

Number of securities	42[1]
Yield	5.0%[2]
Weighted average credit rating	A[3]
Weighted average credit spread duration	4.3 years
Weighted average interest rate duration	3.8 years

SECTOR / SECURITY	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	EXPECTED MATURITY	S&P RATING	YIELD TO MATURITY[3]
BANK DEPOSITS / BANK BILLS		**13.3%**			**2.7%**
Westpac (Bank deposits)[5]	$2,452,702	4.0%	Current	A1+	2.5%
ASB (Bank bills)	$3,795,749	6.2%	Feb-10	A1+	2.8%
Kiwibank (Bank bills)	$973,469	1.6%	Apr-10	A1+	2.8%
ANZ (Bank bills)	$973,330	1.6%	Apr-10	A1+	2.8%
NEW ZEALAND / AUSTRALIAN CORPORATE BONDS		**20.3%**			**6.4%**
Fonterra	$2,837,189	4.6%	Mar-15	A+	6.7%
Woolworths	$2,697,989	4.4%	Nov-11	A-	4.8%
Vector	$2,224,379	3.6%	Oct-14	AA	7.2%
University of Canterbury	$2,193,139	3.6%	Dec-19	NR	7.1%
Watercare	$1,465,495	2.4%	May-14	AA	6.4%
Bank of New Zealand	$1,098,339	1.8%	Mar-14	AA	6.4%
GLOBAL CORPORATE BONDS		**14.1%**			**6.9%**
Vodafone	$2,780,833	4.5%	Jan-13	BBB+	5.0%
Citigroup	$1,447,855	2.3%	May-12	A-	7.8%
Pepsico	$640,409	1.0%	Nov-18	AA	7.0%
Telecom Italia	$594,355	1.0%	Sep-34	BBB	8.8%
Oracle Corp	$553,807	0.9%	Apr-38	A	8.4%
Westfield	$548,515	0.9%	Sep-15	A	6.9%
IBM Corp	$546,878	0.9%	Nov-32	A+	7.9%
Mosaic Co	$542,825	0.9%	Dec-14	BBB	8.5%
Incitec Pivot	$513,907	0.8%	Dec-19	BBB-	8.5%
Shell International Finance	$512,715	0.8%	Sep-19	AA+	6.8%

[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 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. [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 31 JANUARY 2010 (PART 2)

SECTOR / SECURITY	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	EXPECTED MATURITY	S&P RATING	YIELD TO MATURITY[3]
GOVERNMENT / GOVERNMENT-GUARANTEED BONDS		**12.2%**			**4.5%**
Commonwealth Bank of Australia	$3,683,534	6.0%	Dec-13	AAA	4.3%
BNZ	$1,752,412	2.8%	Feb-14	AAA	5.6%
Westpac	$1,048,995	1.7%	May-12	AAA	4.1%
ANZ	$1,031,374	1.7%	Dec-10	AAA	3.5%
RESIDENTIAL MORTGAGES		**11.8%**			**7.6%**
AMSNZ mortgage security (various issues)[6]	$4,197,279	6.8%	May-10 to Mar-11	AA- to AAA	7.9%
Westpac mortgage security	$1,814,305	2.9%	Aug-12	AAA	5.1%
Sapphire mortgage security (various issues)	$1,250,909	2.0%	Jan-12 to Jun-14	AA	10.3%
EXTERNALLY MANAGED FUNDS		**26.2%**			**6.8%**
iShares iBoxx Investment Grade US Corporate Bond Fund	$11,350,786	18.4%	May-22	BBB	7.3%
iShares Great Britian Corporate Bond Fund	$2,922,753	4.7%	Dec-25	A-	8.3%
iShares European Corporate Bond Fund	$1,917,844	3.1%	May-15	A-	5.2%
LOANS		**1.7%**			**7.8%**
Private Loan Trust (Fidelity - 32 current loans)	$1,027,297	1.7%	-	NR	7.8%
DEBT STRATEGIES		**0.5%**			
Interest rate swaps	$323,653	0.5%			
TOTAL ECONOMIC EXPOSURE	**$61,715,020**	**100%**			

Interest rate swaps, notional value ~ $15.3m.

[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. 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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