

Manager insight – 31 March 2009

The Portfolio finished the quarter with a month of flat performance. The Portfolio increased in March by 0.13%¹ taking the three-month performance to 0.43%¹. Since the inception of the strategy (25 June 2008), the Portfolio has returned 5.37%¹.

While the current quarter's performance is lower than the manager would like, NZ Funds' priority is to ensure the Portfolio remains broadly capital stable. In this respect, the Portfolio has so far avoided the landmines of 2009 and is well positioned for a variety of market outcomes.

Looking forward, NZ Funds remains very cautious and expects 2009 to be at least as difficult as 2008. Notwithstanding this it is also cognisant that markets are likely to oscillate between periods of euphoria and depression.

A prime example of this is the sharp rise in New Zealand wholesale interest rates during March, due to banks hedging their mortgage books. The negative impact of this has been dulled by the Portfolio's conservative and diversified interest rate exposure. Currently, the Portfolio has an aggregate interest rate duration of 1.6 years, spread across NZ (55%), Australia (15%) and the US (30%).

Two new corporate positions – Fonterra (discussed in the February Insights) and Woolworths – were added to the Portfolio in March.

The Woolworths bond is one that the manager has been looking to source in the secondary market for sometime.

Bond insight: Woolworths

Woolworths is Australasia's dominant food retailer and a business whose performance has continually reinforced the stability and defensive nature of its earnings. Importantly, the manager was able to buy this 'A-' rated 2011 bond (which is not available to retail investors) at a yield of 8% (approximate NZ dollar yield). This is a yield equivalent to that recently offered by Contact's retail bond issue which is rated two notches lower at 'BBB'.

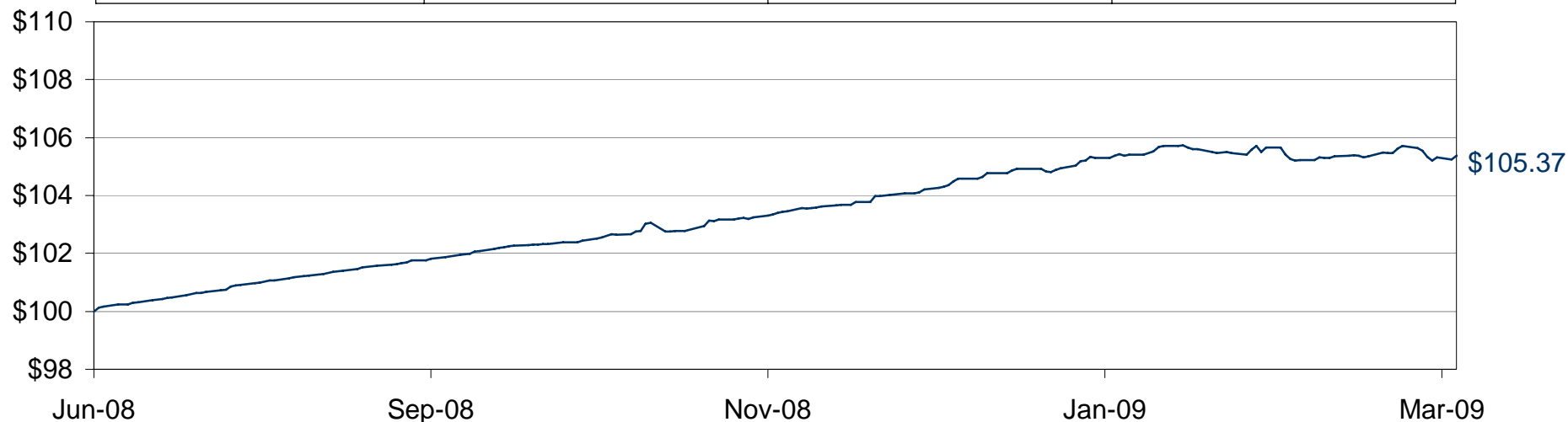
\$A millions	Woolworths
Food and Liquor	
Sales	32,810
Stores	1,524
Sales/sqm (A\$)	16,101
EBIT	2,203
<i>EBIT margin</i>	7%
Woolworths Group	
Leverage (net debt/EBITDA)	0.7
S&P Credit Rating	A-

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 March 2009

Performance attribution	One month	Three month	Six month
Positive	Running yield	-	-
Neutral	Credit spreads	-	-
Negative	Long duration positions	-	-



One-month return	Three-month return	Six-month return	One-year return	Since inception of strategy pa
0.13%	0.43%	2.91%	-	-

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 31 March 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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