

PORTFOLIO OVERVIEW – 31 MARCH 2010

Needs category objective

- > To provide clients with an allocation of funds to meet their anticipated lifestyle and other expenses over the near term.

Investment objective

- > To primarily invest in a diversified range of income-producing assets, utilising active investment management.

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 securities (both guaranteed and unguaranteed) and debt securities such as corporate bonds, mortgage-backed bonds and interest rate exposures.
- > Ability to select assets from a broad universe.

Risk management

- > Utilises New Zealand Funds Management's 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 Investment Manager, New Zealand Funds Management recognises that during some periods all investments can suffer as part of a wider market malaise. New Zealand Funds Management's 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

The Portfolio returned 1.00%¹ in March, taking the year to date performance to 0.97%¹. The strong performance for the month reflects the performance of the Portfolio's international corporate bonds. This was complemented by the risk management models which captured the (positive) move lower in medium-term interest rates during the first two weeks of March and avoided the (negative) move higher in medium-term interest rates that occurred during the second half of March.

Bond insight: The Warehouse

A new addition to the Portfolio this month, which will appear in the Portfolio in April, is a bond issued by The Warehouse Group (The Warehouse). The Warehouse is one of New Zealand's largest retailers, operating 86 'red sheds' throughout New Zealand and as a result it is a name that is familiar to every New Zealander.

This is the first time the company has issued bonds to the public and on first look, it appears that the company maintains a very strong credit profile. The company currently has bank debt of just \$100 million and they are looking to raise an additional \$100 million via the bond issue. When compared to the company's annual revenue of \$1.7 billion and Earnings before Interest, Tax, Depreciation, Amortisation and Financing (EBITDAF) of approximately \$166 million, the debt levels are low (Debt/EBITDAF of 1.2 times). Equally, the company's interest coverage stands at an impressive 18.9 times. However, this is a very good example of why thorough due diligence by an experienced analyst is required for all bond investments – even those issued by recognisable household names.

A number of years ago, The Warehouse made the decision to free up shareholder capital by selling many of their properties and leasing them back off the purchasers. As a result of these transactions, the company now pays \$60 million to lease their 'red sheds' and is obligated to pay this amount for the next 6 years (the average lease term). Effectively, these lease commitments are just an alternative form of debt and as such, the level of debt taken on by the company needs to be adjusted accordingly. To adjust the debt level, the leases need to be capitalised at a multiple of 6 to 8 times. At the more conservative, 8 times – this implies that the leases are equivalent to an additional \$465 million of debt, taking total debt from \$200 million to \$685 million. This has a large impact on the company's credit metrics with the Debt/EBITDAF measure increasing from 1.2 times to 3 times. Equally, the company's interest coverage (EBITDAF/Interest) declines from 18.9 times to 4.8 times.

A measure of 3 times debt to EBITDAF is moderately high for a retailer who by the very nature of their business faces an uncertain earnings profile. Consequently, the company is a riskier investment than it initially appears and the pricing of the bonds needs to appropriately compensate investors for the level of risk being taken.

This does not make The Warehouse a bad credit. It is a strong business with a great franchise and, in our view, has the equivalent of an investment grade credit profile (the company has not sought a credit rating so it is unrated). However, this analysis clearly highlights the value of a professionally managed portfolio and rigorous credit analysis process.

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 31 MARCH 2010 (PART 1)

| CIP PERFORMANCE ATTRIBUTION | 1 MONTH | 3 MONTH | 6 MONTH |
|-----------------------------|-------------------------------|--------------------------|----------------|
| Positive | Interest rate hedging; credit | Credit | Credit |
| Neutral | Cash | NZ interest rate hedging | Interest rates |
| Negative | Interest rates | US interest rate hedging | Interest rates |



| COMPARISON | 1 MONTH | 3 MONTH | 6 MONTH | 1 YEAR | 2 YEAR PA | 5 YEAR PA | 7 YEAR PA | SINCE INCEPTION | MAXIMUM DRAWDOWN* |
|-------------------------|---------|---------|---------|--------|-----------|-----------|-----------|-----------------|-------------------|
| Portfolio* | 1.00% | 0.97% | 1.15% | 3.76% | - | - | - | 9.34% | -1.06% |
| 90 day bank bill rate** | 0.21% | 0.64% | 1.30% | 2.72% | - | - | - | 8.15% | -0.18% |

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

PERFORMANCE SINCE 25 JUNE 2008 TO 31 MARCH 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

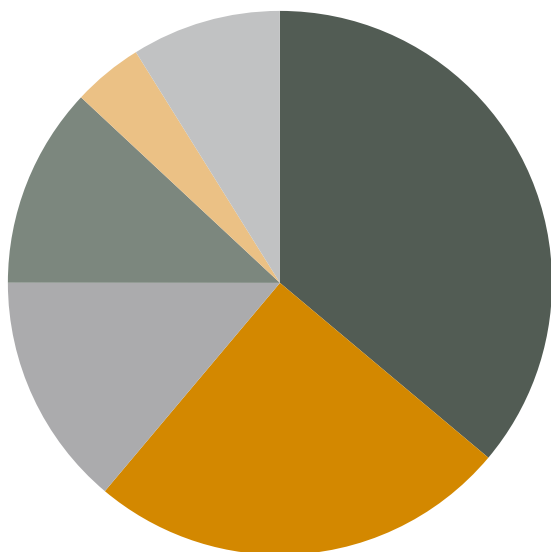
- ** The comparative index is based on the 90-day bank bill rate (sourced from Bloomberg). A fee of 0.20% pa has been deducted from the published rate to reflect the fact that bank bills are usually accessed by retail investors through a managed fund. The returns from this index should be higher than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

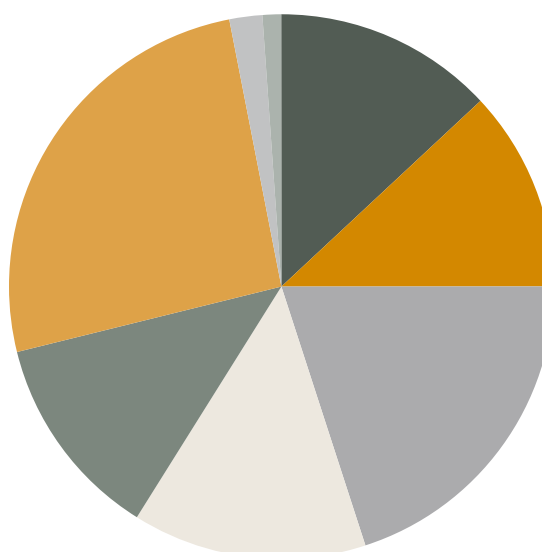
ASSET ALLOCATION (%)

January 2009



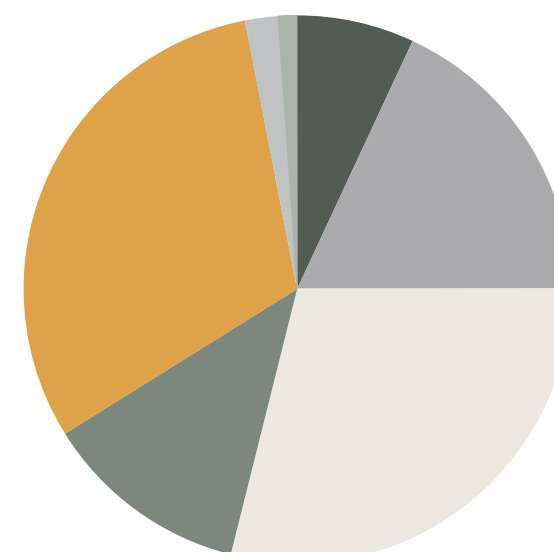
| | |
|------------------------------|-----|
| ● BANK DEPOSITS & BANK BILLS | 36 |
| ● GOVT-GUARANTEED BONDS | 25 |
| ● CORPORATE BONDS | 14 |
| ● RESIDENTIAL MORTGAGES | 12 |
| ● OTHER DEBT SECURITIES | 4 |
| ● LOANS | 9 |
| TOTAL | 100 |

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 |

March 2010



| | |
|-----------------------------------|-----|
| ● BANK DEPOSITS & BANK BILLS | 7 |
| ● NZ / AUSTRALIAN CORPORATE BONDS | 18 |
| ● GLOBAL CORPORATE BONDS | 29 |
| ● RESIDENTIAL MORTGAGES | 12 |
| ● EXTERNALLY MANAGED FUNDS | 31 |
| ● LOANS | 2 |
| ● DEBT STRATEGIES | 1 |
| TOTAL | 100 |

COMPLETE PORTFOLIO AS AT 26 MARCH 2010 (PART 1)

PORTFOLIO SUMMARY

| | |
|---|-------------------|
| Number of securities | 47 ¹ |
| Yield | 5.9% ² |
| Weighted average credit rating | BBB+ ³ |
| Weighted average credit spread duration | 5.5 years |
| Weighted average interest rate duration | 2.1 years |

| SECTOR / SECURITY | PORTFOLIO VALUE | PORTFOLIO ALLOCATION | EXPECTED MATURITY | S&P RATING | YIELD TO MATURITY ⁴ |
|---|-----------------|----------------------|-------------------|------------|--------------------------------|
| BANK DEPOSITS / BANK BILLS | | 6.7% | | | 2.5% |
| Westpac (Bank deposits) ⁵ | \$3,475,046 | 5.6% | Current | A1+ | 2.5% |
| ASB 15/04/2010 (Bank bill) | \$252,636 | 0.4% | Apr-10 | A1+ | 2.6% |
| Kiwibank 15/04/2010 (Bank bill) | \$229,669 | 0.4% | Apr-10 | A1+ | 2.6% |
| ANZ 15/04/2010 (Bank bill) | \$206,702 | 0.3% | Apr-10 | A1+ | 2.6% |
| ANZ 28/04/2010 (Bank bill) | \$45,891 | 0.1% | Apr-10 | A1+ | 2.7% |
| NEW ZEALAND / AUSTRALIAN CORPORATE BONDS | | 17.3% | | | 6.9% |
| University of Canterbury 7.25% 15/12/2019 | \$1,763,838 | 2.8% | Dec-19 | NR | 7.2% |
| Fonterra 7.57% 10/03/2015 | \$1,724,111 | 2.8% | Mar-15 | A+ | 6.7% |
| Vector 7.8% 15/10/2014 | \$1,516,058 | 2.4% | Oct-14 | BBB+ | 7.0% |
| Watercare 6.785% 15/05/2014 | \$1,493,046 | 2.4% | May-14 | AA | 6.3% |
| Works Finance NZ 9.65% 15/09/2012 | \$1,459,728 | 2.3% | Sep-12 | BBB | 6.9% |
| Westfield 5.75% 02/09/2015 | \$1,090,715 | 1.7% | Sep-15 | A | 7.0% |
| Mighty River Power 7.55% 12/10/2016 | \$737,432 | 1.2% | Oct-16 | BBB+ | 7.5% |
| The Warehouse 7.3% 15/06/2015 | \$734,068 | 1.2% | Jun-15 | NR | 7.3% |
| Meridian Energy 7.15% 16/03/2015 | \$296,668 | 0.5% | Mar-15 | BBB+ | 6.9% |
| GLOBAL CORPORATE BONDS | | 31.4% | | | 7.5% |
| Citigroup 7.825% 18/05/2012 | \$1,762,664 | 2.8% | May-12 | A- | 7.1% |
| Arcelormittal 9% 15/02/2015 | \$1,511,367 | 2.4% | Feb-15 | BBB- | 6.9% |
| Rio Tinto 9% 01/05/2019 | \$1,323,313 | 2.1% | May-19 | BBB+ | 7.5% |
| Pepsico 7.9% 01/11/2018 | \$1,285,474 | 2.1% | Nov-18 | AA- | 6.9% |
| BHP Finance 6.5% 01/04/2019 | \$1,182,253 | 1.9% | Apr-19 | A+ | 7.0% |
| Mosaic 7.375% 01/12/2014 | \$1,104,539 | 1.8% | Dec-14 | BBB | 8.1% |
| Goldman Sachs 6.15% 01/04/2018 | \$1,095,991 | 1.8% | Apr-18 | A+ | 7.6% |

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 26 MARCH 2010 (PART 2)

| SECTOR / SECURITY | PORTFOLIO VALUE | PORTFOLIO ALLOCATION | EXPECTED MATURITY | S&P RATING | YIELD TO MATURITY ⁴ |
|---|---------------------|----------------------|-------------------|------------|--------------------------------|
| GLOBAL CORPORATE BONDS | | 31.4% | | | 7.5% |
| Comcast 5.7% 01/07/2019 | \$1,078,430 | 1.7% | Jul-19 | BBB+ | 7.5% |
| Barrick Australia 4.95% 15/01/2020 | \$1,051,083 | 1.7% | Jan-20 | BBB+ | 7.1% |
| Incitec Pivot 6% 10/12/2019 | \$1,047,423 | 1.7% | Dec-19 | BBB- | 8.2% |
| JP Morgan Chase 6% 01/10/17 | \$993,296 | 1.6% | Oct-17 | AA | 7.3% |
| AT&T 5.8% 15/02/19 | \$991,346 | 1.6% | Feb-19 | A | 7.3% |
| General Mills 5.65% 15/02/19 | \$943,206 | 1.5% | Feb-19 | BBB+ | 7.0% |
| Telefonica 5.877% 15/07/19 | \$940,810 | 1.5% | Jul-19 | BBB+ | 7.3% |
| Altria Group 9.25% 06/08/19 | \$940,679 | 1.5% | Aug-19 | BBB+ | 8.6% |
| Simon Property Group 5.65% 01/02/2020 | \$723,944 | 1.2% | Feb-20 | A- | 8.4% |
| Oracle 6.5% 15/04/2038 | \$569,284 | 0.9% | Apr-38 | A | 8.2% |
| Oracle 6.125% 08/07/2039 | \$546,643 | 0.9% | Jul-39 | A | 8.0% |
| IBM 5.875% 29/11/2032 | \$537,743 | 0.9% | Nov-32 | A+ | 8.0% |
| RESIDENTIAL MORTGAGES | | 11.6% | | | 7.7% |
| Westpac 2009-1 A mortgage security 21/01/2041 | \$1,759,299 | 2.8% | Aug-12 | AAA | 5.1% |
| AMSNZ V 3 mortgage security 15/03/2032 ⁶ | \$1,394,729 | 2.2% | Mar-11 | AA- | 9.4% |
| AMSNZ IV 3 mortgage security 15/10/2031 ⁶ | \$1,057,058 | 1.7% | Dec-10 | AA- | 9.1% |
| AMSNZ III 3 mortgage security 15/05/2031 ⁶ | \$724,371 | 1.2% | Jan-11 | AA- | 5.5% |
| Sapphire III NZ 2006 MA mortgage security 13/07/2037 | \$676,965 | 1.1% | Jan-12 | AA | 9.3% |
| Sapphire 2007-1 MA mortgage security 13/05/2041 | \$596,678 | 1.0% | Jun-14 | AA | 11.7% |
| AMSNZ IV 2 mortgage security 15/10/2031 ⁶ | \$584,466 | 0.9% | Sep-10 | AAA | 7.1% |
| AMSNZ V 2 mortgage security 15/03/2032 ⁶ | \$458,726 | 0.7% | Dec-10 | AAA | 6.2% |
| EXTERNALLY MANAGED FUNDS | | 30.5% | | | 7.0% |
| iShares iBoxx Investment Grade US Corporate Bond Fund | \$14,536,423 | 23.2% | May-22 | BBB | 7.1% |
| iShares Great Britian Corporate Bond Fund | \$2,714,016 | 4.3% | Dec-25 | A- | 7.9% |
| iShares European Corporate Bond Fund | \$1,845,704 | 3.0% | May-15 | A- | 5.0% |
| LOANS | | 1.6% | | | 7.6% |
| Private Loan Trust (Fidelity - 29 current loans) | \$1,027,327 | 1.6% | n/a | NR | 7.6% |
| DEBT STRATEGIES | | 0.8% | | | n/a |
| United States government bonds – Futures | \$494,768 | 0.8% | n/a | n/a | n/a |
| TOTAL ECONOMIC EXPOSURE⁷ | \$62,525,625 | 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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