Core Income Portfolio

NZFUNDS

Manager insight – 31 August 2009

The Portfolio returned 0.14%[1] for the month of August and 1.89%[1] for the year to date. For the majority of the past month interest rate hedges were in place to limit the exposure to negative interest rate movements. While this did constrain performance, the focus was on protecting the Portfolio against negative market moves.

Bond insight: Woolworths

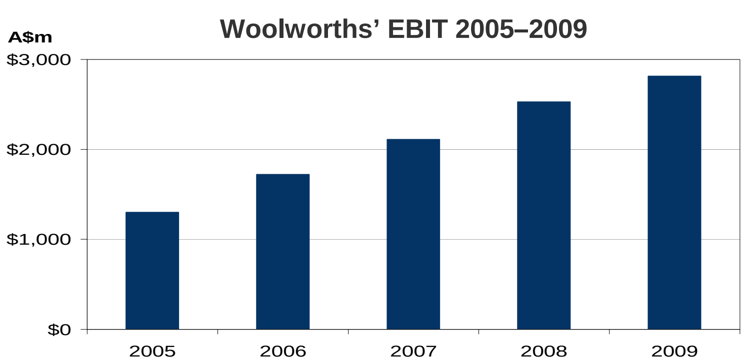
This month we want to provide some insight into one of the core defensive holdings in the Portfolio, Woolworths. The company has many attributes that help it to weather difficult economic conditions: it's a defensive businesses; has a strong financial profile; and good management. Generally, defensive companies deliver predictable cash flows and slow, but stable growth. Woolworths proves that there are exceptions to every rule, combining its defensive profile with consistently strong financial results.

The company is best known for its supermarket chains in Australia and New Zealand, however, it is also involved in a number of other sectors. It is involved in petrol retailing, general merchandise retailing through the Big W chain and consumer electronics through Dick Smith and Tandy's in Australasia, and TATA in India. It also has liquor and hotel operations. The Supermarkets division, dominated by Australian Food and Liquor, is by far the largest segment. In 2009 it contributed 87% of earnings before interest and tax (EBIT).

Each year Woolworths sets itself challenging performance expectations. It expects to deliver sales growth in the upper single digits and to manage costs so that EBIT growth outperforms sales growth.

Woolworths has been very successful in achieving these goals and did so again 2009. Comparable sales (excluding petrol) grew 8.5% and EBIT grew 13%. Comparable net profit after tax (NPAT) of A$1.8b was 15% higher than in 2008, exceeding the top end of management's guidance of 11-14%. The accompanying graph demonstrates Woolworth's impressive EBIT performance since 2005.

The Australian Food and Liquor division in particular continued its strong performance in 2009, with EBIT up 15%. The recessionary environment enabled Woolworths to benefit from more consumers eating at home and cost-conscious consumers switching to its private label lines. Big W was another highlight, with EBIT increasing 24%. Big W benefited from the fiscal stimulus payments made by the Australian government.

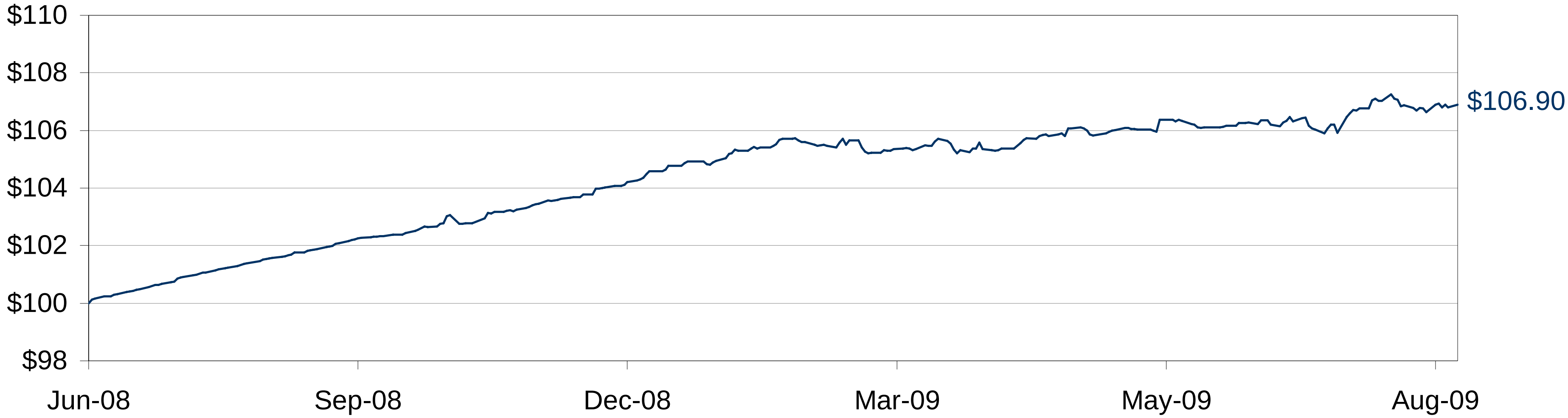


1 Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

Core Income Portfolio

Performance since 25 June 2008 to 31 August 2009

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



One-month return	Three-month return	Six-month return	1-year return	Since inception of strategy pa
0.14%	0.51%	1.59%	5.04%	5.80%

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.

Core Income Portfolio

Portfolio summary as at 27 August 2009

Portfolio summary	
Number of securities	55*
Weighted average credit spread duration (yrs)	5.2
Weighted average interest rate duration (yrs)	2.2
Weighted average running yield (approximately)	5.7%**
Weighted average credit rating	A+

Sector	Portfolio value	Proportion of portfolio	Maturity date / Expected average life date	S&P rating	Yield to maturity***
Bank deposits / Bank bills	$2,374,083	4.0%	Sep-09	A1+	2.7%
New Zealand / Australian corporate bonds	$12,404,559	21.1%	Oct-13	A-	7.0%
Global corporate bonds	$20,922,386	35.6%	Aug-18	A-	7.1%
Government-guaranteed bonds	$16,079,012	27.4%	Apr-12	AAA	5.1%
Residential mortgages	$5,582,615	9.5%	Jun-11	AA	11.3%
Loans	$1,374,937	2.3%	-	NR	7.8%
Total	**$58,737,592**	**100.0%**			

Interest rate swaps, notional value ~ $19.5m.

*The Portfolio often holds more than one security under a given issuer. The 'number of securities' takes this into account. **The weighted average 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. Rather, it is an estimate of the pre-tax income stream generated from investing in the Portfolio. The Portfolio return consists of yield and capital gains and losses. Therefore, the Portfolio's return could be less than the Portfolio's yield. Details of the yield calculation are available on request from NZ Funds. ***The yield to maturity is stated before the deduction of management, custodial and trustee fees.

Core Income Portfolio

NZFUNDS

Complete portfolio as at 27 August 2009 (Part 1)

Portfolio summary

Number of securities	55*
Weighted average credit spread duration (yrs)	5.2
Weighted average interest rate duration (yrs)	2.2
Weighted average running yield (approximately)	5.7%**
Weighted average credit rating	A+

Sector / Security	Portfolio value	Proportion of portfolio	Maturity date / Expected average life date	S&P rating	Yield to maturity***
Bank deposits / Bank bills		**4%**			
Westpac (Bank deposits)****	$819,594	1%	Current	A1+	2.5%
ANZ (Bank bills)	$410,239	1%	Oct-09	A1+	2.8%
Westpac (Bank bills)	$323,460	1%	Oct-09	A1+	2.8%
BNZ (Bank bills)	$293,917	1%	Sep-09	A1+	2.7%
Kiwibank (Bank bills)	$280,950	0%	Sep-09	A1+	2.7%
ASB (Bank bills)	$245,924	0%	Oct-09	A1+	2.8%
New Zealand / Australian corporate bonds		**21%**			
Fonterra	$2,754,767	5%	Mar-15	A+	7.4%
Woolworths	$2,726,295	5%	Nov-11	A-	6.5%
Vector	$2,216,252	4%	Oct-14	BBB	7.3%
Telstra Corporation	$2,189,522	4%	Nov-12	A	7.0%
Watercare	$1,425,395	2%	May-14	AA	7.1%
Bank of New Zealand	$1,092,326	2%	Mar-14	AA	6.5%
Global corporate bonds		**36%**			
Vodafone	$2,606,308	4%	Jan-13	BBB+	6.7%
Oracle Corp	$1,428,888	2%	Jul-19	A	6.9%
Citigroup	$1,389,970	2%	May-12	A-	9.5%
McDonalds	$1,242,726	2%	Feb-39	A-	7.8%
Kraft Foods	$1,147,044	2%	Nov-11	BBB	4.3%
Pfizer	$1,024,796	2%	Mar-39	AA	7.8%
IBM Corp	$981,933	2%	Oct-18	A+	6.9%

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Core Income Portfolio

Complete portfolio as at 27 August 2009 (Part 2)

Sector / Security	Portfolio value	Proportion of portfolio	Maturity date / Expected average life date	S&P rating	Yield to maturity***
Time Warner Cable	$953,230	2%	Apr-19	BBB	8.0%
EDF SA	$909,768	2%	Jan-19	AA-	7.0%
GlaxoSmithKline PLC	$885,875	2%	May-18	A+	6.5%
AT&T Inc	$859,557	1%	Feb-19	A	7.2%
Goldman Sachs	$844,272	1%	Apr-18	A+	7.7%
Shell International	$833,814	1%	Mar-14	AA+	5.3%
Comcast	$833,279	1%	May-18	BBB+	7.5%
Microsoft Corp	$830,391	1%	Jun-19	AAA	6.1%
Fiserv	$740,248	1%	Nov-12	BBB	6.2%
Merrill Lynch	$708,804	1%	Apr-18	A	8.9%
CME Group	$582,968	1%	Feb-14	AA-	5.8%
Computer Associates Inc	$560,407	1%	Dec-14	BBB-	7.4%
Mozaic	$560,157	1%	Dec-16	BBB	9.1%
Simon Property Group	$547,212	1%	Mar-12	A-	6.2%
Bank of America	$450,739	1%	Oct-16	A	7.7%
Government-guaranteed bonds		**27%**			
Westpac	$5,475,116	9%	May-12	AAA	4.5%
Commonwealth Bank of Australia	$3,526,740	6%	Dec-13	AAA	5.2%
US Treasury^	$3,222,335	5%	Aug-19	AAA	5.9%
BNZ	$1,718,979	3%	Feb-14	AAA	6.0%
ANZ	$1,068,428	2%	Dec-10	AAA	3.6%
National Australia Bank	$1,067,414	2%	Jan-12	AAA	4.8%
Residential mortgages		**10%**			
AMSNZ mortgage security (various issues)*****	$4,355,648	7%	May-10 to Mar-11	AA- to AAA	10.9%
Sapphire New Zealand mortgage security (various issues)	$1,226,967	2%	Jan-12 to Jun-14	AA	12.7%
Loans		**2%**			
Private Loan Trust (Fidelity - 32 current loans)	$1,374,937	2%	-	NR	7.8%
Total	**$58,737,592**	**100%**			

Interest rate swaps, notional value ~ $19.5m.

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Notes

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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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