

## Manager insight – 28 February 2009

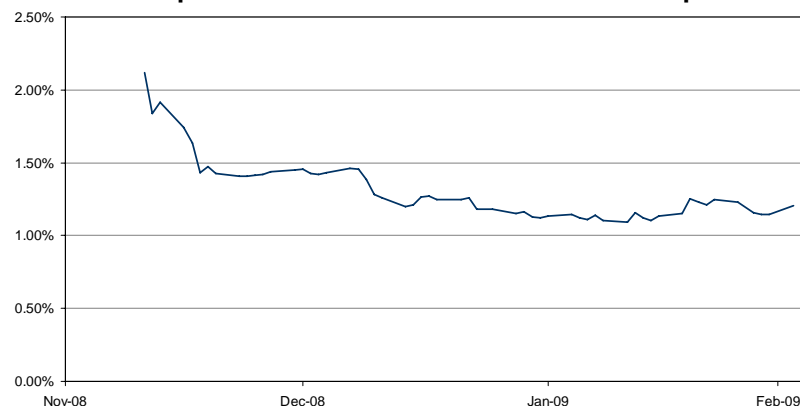
The Credit Opportunities Portfolio returned -0.31%<sup>1</sup> for the month of February.

The Portfolios' stressed credit holdings accounted for a small decline, while a small gain was made from active trading. However the main factor for the small negative return was a modest rise in US interest rates which weighted on the Portfolio's largest holding – a government-guaranteed bond issued by Westpac.

Notwithstanding a modest decline in its value during February the Westpac bond, which is denominated in US dollars and matures in November 2011, has been a star holding.

This was one of the first bonds issued under the Australia governments' crown guarantee program and because of this, it was issued at a very attractive credit spread. The Portfolio purchased the bond at a credit spread of 2.1% over the benchmark government interest rate for the same maturity. Given the benchmark interest rate is also "government risk" NZ Funds' saw this as an exceptional opportunity to get a significantly higher running yield without the need to take on any more risk. Indeed since it was issued back in November 2008 the market has recognized this and the bonds' credit spread has narrowed significantly from the initial 2.1% to 1.2% at the end of February.

**Westpac 3.25% November 2011 bond credit spread**



Active thematic trades were kept to a minimum during the month as interest rate, credit and currency markets were generally range bound and no clear trend emerged. Positions taken and closed during the month were:

A long position in the US 10-year treasury (future). This position was closed at a small loss of approximately -0.10%.

A short position in the New Zealand dollar against the US dollar. This position was closed at a gain of 0.70%.

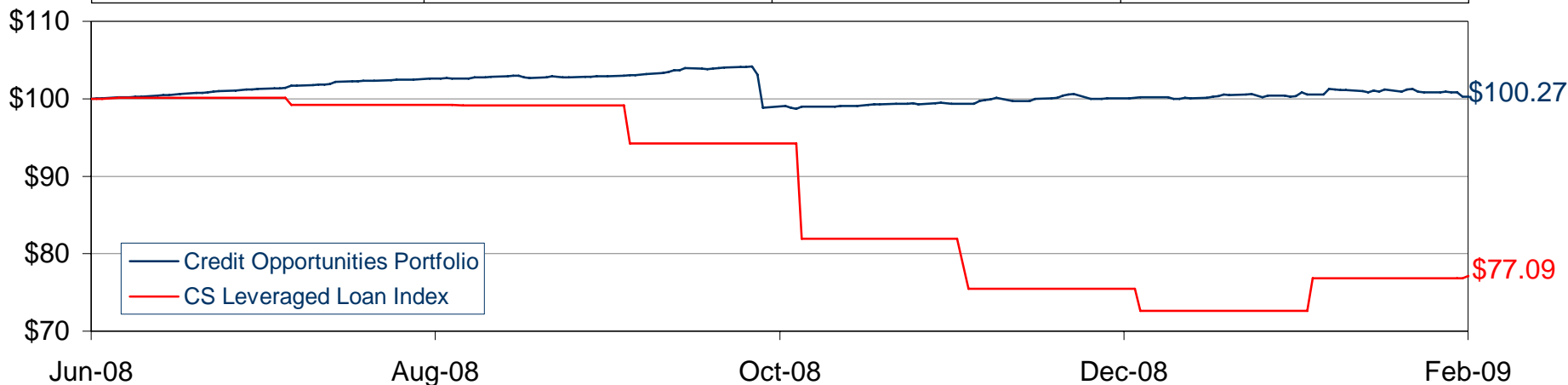
A short position in the New Zealand dollar against the Australian dollar (sold NZD/AUD). This position was closed flat at no gain or loss.

<sup>1</sup>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.

# Credit Opportunities Portfolio

Performance since 25 June 2008 to 28 February 2009

| Performance attribution | One month               | Three month | Six month |
|-------------------------|-------------------------|-------------|-----------|
| Positive                | Cash holdings; currency | -           | -         |
| Neutral                 | n/a                     | -           | -         |
| Negative                | Credit                  | -           | -         |



| One-month return | Three-month return | Six-month return | One-year return | Since inception return pa |
|------------------|--------------------|------------------|-----------------|---------------------------|
| -0.31%           | 0.97%              | -2.29%           | -               | -                         |

Portfolio summary as at 28 February 2009

## Portfolio summary

|                 |     |
|-----------------|-----|
| Cash            | 31% |
| Debt securities | 69% |

| Sector / Security                    | Portfolio value     | Proportion of portfolio |
|--------------------------------------|---------------------|-------------------------|
| <b>Bank deposits / Bank bills</b>    |                     | <b>31%</b>              |
| ANZ (Bank bills)                     | \$412,274           | 4%                      |
| ASB Bank (Bank bills)                | \$394,002           | 4%                      |
| BNZ (Bank bills)                     | \$251,473           | 3%                      |
| Kiwibank (Bank bills)                | \$411,145           | 4%                      |
| Westpac (Bank deposits)              | \$1,169,519         | 12%                     |
| Westpac (Bank bills)                 | \$465,619           | 5%                      |
| <b>Corporate bonds (short dated)</b> |                     | <b>22%</b>              |
| Telstra Corporation                  | \$2,247,558         | 22%                     |
| <b>Government guaranteed bonds</b>   |                     | <b>31%</b>              |
| Westpac Bank (Government Guaranteed) | \$3,124,622         | 31%                     |
| <b>Stressed assets</b>               |                     | <b>15%</b>              |
| CLO rated (3 securities)             | \$298,623           | 3%                      |
| CLO equity (4 securities)            | \$1,234,016         | 12%                     |
| <b>Debt strategies</b>               |                     | <b>0%</b>               |
| March US Dollar Index Futures        | \$381               | 0%                      |
| <b>Total</b>                         | <b>\$10,008,851</b> | <b>100%</b>             |

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.