

Portfolio overview – 30 June 2009

Investment objective

- Achieve significantly higher returns than bank deposits over the minimum investment time frame.

Key features

- A high-risk, high-return investment designed to target the opportunities and market volatility created in the wake of the credit crunch.
- Flexible investment approach means the Portfolio is not reliant on just one strategy throughout the credit cycle. Instead, it seeks opportunities across both non-credit markets (interest rates and currencies) and credit markets.

Risk management

- The flexible investment approach allows: 1) action when opportunities are appropriate; and 2) patience to be in cash when they are not.
- Preference for more liquid securities and markets ensures the Portfolio can be positioned for rapidly changing market conditions.

Return enhancement

- The Portfolio has a significant 'cash chest' which is being selectively invested in higher-yield, investment-grade corporate bonds complemented by trading positions in interest rates and currencies.

Manager insight – 30 June 2009

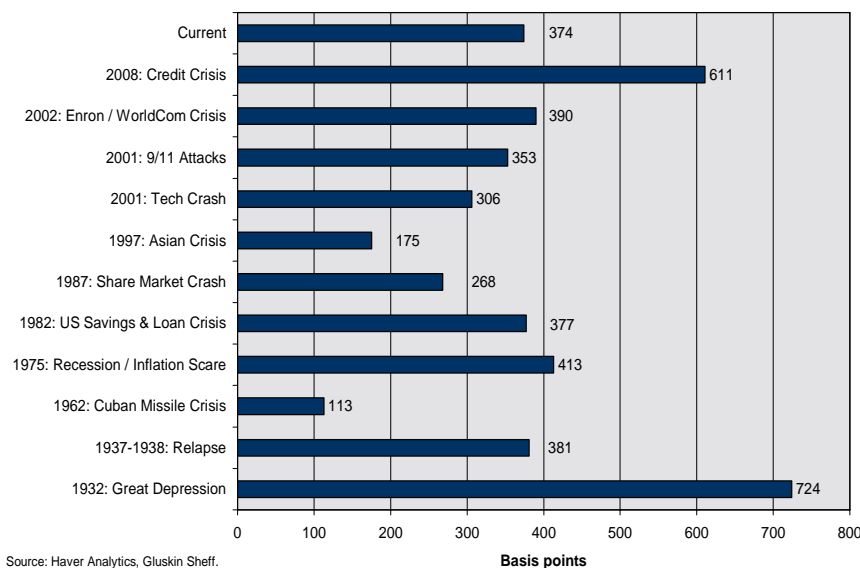
An examination of the history of investment-grade corporate bonds (ie those rated from BBB- to AAA) over the last ninety years shows that, during periods of severe economic turmoil, the prices of these securities, decline. A decline in the price of a corporate bond means that the bond's spread over cash (yield) increases.

At the beginning of 2009, BBB rated corporate bond yields were 6% greater than cash rates. Levels such as this had only previously been seen during the peak of the Great Depression. This level of yield above cash rates indicates that investors were expecting an Armageddon-like scenario to play out over 2009 and 2010, and for a significant percentage of investment-grade companies to default. To put this in a New Zealand context, it implies that if 10 blue chip businesses were selected – names such as Telecom, Contact Energy and the BNZ – the market was expecting one of these to default on its debt obligations during 2009.

Recently market sentiment has improved and this has been reflected in the yields of corporate bonds which have fallen from 6% above cash to 3.5% over cash. This is a significant improvement and the natural reaction is to ask whether there are still opportunities available in corporate bonds.

The accompanying chart suggests that spreads are still at levels that are wide by historic standards and that a lot of very bad news remains priced into bond yields.

Certainly a spread of 3.5% over cash is in line with the highest spreads experienced at the end of the tech crash in 2001 and wider than spreads experienced during the 1987 share market crash.

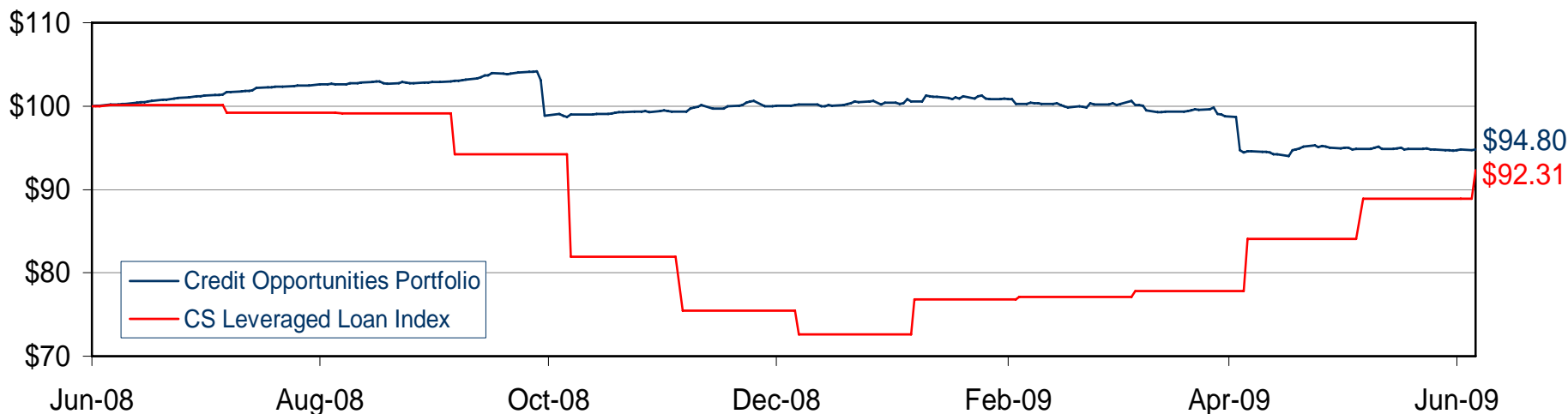


If the global economy continues to show signs of improvement, tighter corporate bond spreads (ie increase in price) are to be expected. If the spread of BBB rated corporate bonds tightens from their current level of 3.5% to the levels seen before the credit crisis (1.5%), then there is scope for an additional 10% capital gain to be made over and above the current yield of 9% by investing in BBB rated corporate bonds such as Altria and Telecom Italia.

Credit Opportunities Portfolio

Performance since 25 June 2008 to 30 June 2009

Performance attribution	One month	Three month	Six month
Positive:	Corporate credit spreads	Cash; inv. grade credit	Cash
Neutral:	Cash	n/a	n/a
Negative:	Interest rates	Distressed credit	Distressed credit



One-month return	Three-month return	Six-month return	One-year return	Since inception return pa
-0.08%	-5.33%	-5.35%	-5.42%	-5.13%

Source: Bloomberg. 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.

Credit Opportunities Portfolio

Portfolio summary as at 30 June 2009

Portfolio summary

Cash	30%
Debt securities	70%

Sector / Security	Portfolio value	Proportion of portfolio
Bank deposits / Bank bills		30%
ANZ (Bank bills)	\$315,952	3%
ASB Bank (Bank bills)	\$250,405	2%
BNZ (Bank bills)	\$280,036	3%
Kiwibank (Bank bills)	\$338,500	3%
Westpac (Bank deposits)	\$1,535,140	15%
Westpac (Bank bills)	\$269,108	3%
FX Asset	\$137,872	1%
Corporate bonds		44%
Woolworths	\$578,449	5%
Works Finance NZ*	\$2,226,379	21%
Telecom Italia SA*	\$820,332	8%
Altria Group Inc*	\$967,617	9%
Australian government-guaranteed bonds		22%
Westpac	\$2,362,467	22%
Residential mortgages		3%
Sapphire New Zealand mortgage security	\$350,282	3%
Stressed assets		1%
CLO equity (4 securities)	\$93,047	1%
Debt strategies		0%
Total	\$10,525,586	100%

*This security has been purchased but not settled into the Portfolio. 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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