

Manager insight – 31 January 2009

The Credit Opportunities Portfolio returned 0.42%¹ for the month of January.

In December, the Portfolio adopted a more active stance in the foreign exchange and interest rate markets. These are markets which are highly liquid and, thus, enable the Portfolio to be positioned for specific market moves within strictly controlled risk boundaries. The Portfolio will employ such strategies with the objective of generating incremental positive returns. These returns are intended as a complement to the Portfolios' allocation to corporate bonds. Over the coming months NZ Funds will begin to add a number of high quality but attractively priced corporate bonds to the Portfolio to boost the running yield.

Two examples of active trades undertaken since this change in strategy are:

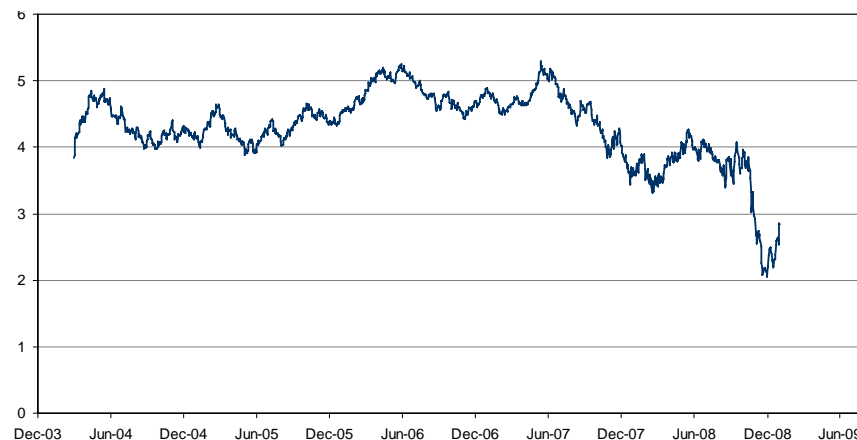
In December the US Federal Reserve clearly stated that it wants to see lower long-term government interest rates and, if necessary, it would begin to actively buy these securities to achieve this aim. The Portfolio brought US government bonds (instrument utilised: US 10-year treasury future) so as to benefit from a decline in the yield on long-term US interest rates (see attached chart). This trade returned (relative to capital invested) approximately 3%² during the month.

With US interest rates falling, we expected a broad (but temporary) decline in the US dollar against the other major currencies (Euro, UK Pound, Japanese Yen, etc).

To benefit from this, the Portfolio sold a basket of currencies against the US dollar. The action this trade the Portfolio utilised a futures contract on a US dollar index known as the DXY Index.

This trade returned (relative to capital invested) approximately 10%** during the month.

**US 10-year Treasury bond yield
March 2004 - January 2008**

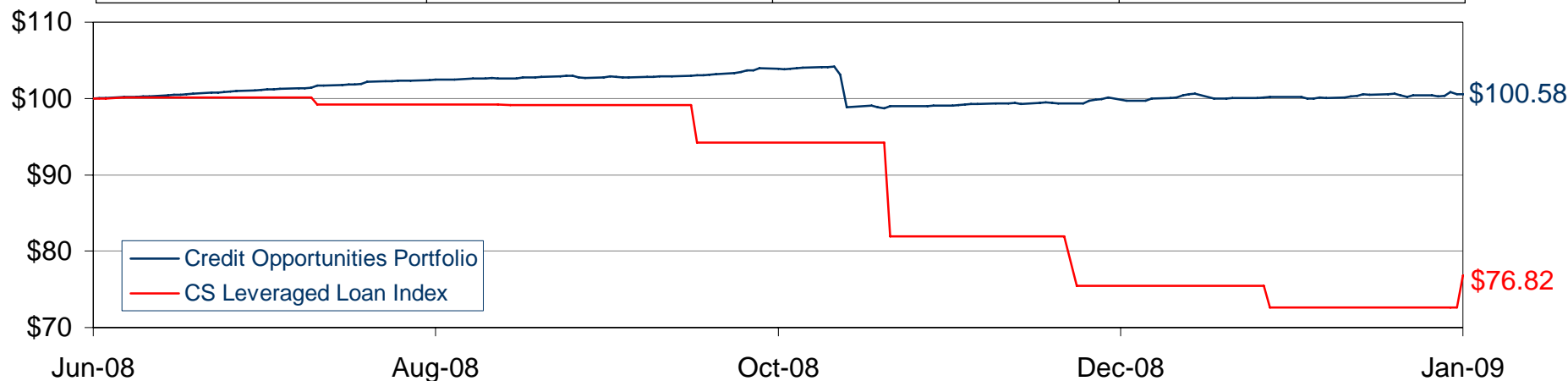


¹ Returns are stated after fund fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns. ² Return is a percentage of the notional value of the trade.

Credit Opportunities Portfolio

Performance since 25 June 2008 to 31 January 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
0.42%	1.63%	-1.08%	-	-

Portfolio summary as at 22 January 2009

Portfolio summary

Cash	34%
Debt securities	66%

Sector / Security	Portfolio value	Proportion of portfolio
Bank deposits / Bank bills		34%
ANZ (Bank bills)	\$647,506	6%
ASB Bank (Bank bills)	\$373,105	4%
BNZ (Bank bills)	\$551,443	5%
Kiwibank (Bank bills)	\$333,079	3%
Westpac (Bank deposits)	\$915,158	9%
Westpac (Bank bills)	\$628,020	6%
Corporate bonds (short dated)		22%
Telstra Corporation	\$2,226,289	22%
Government guaranteed bonds		29%
Westpac Bank (Government Guaranteed)	\$3,010,856	29%
Stressed assets		15%
CLO rated (3 securities)	\$291,929	3%
CLO equity (4 securities)	\$1,278,811	12%
Debt strategies		0%
March US Dollar Index Futures	\$4,058	0%
Total	\$10,256,196	100%

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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