

MANAGER INSIGHT – 31 JANUARY 2010

The Portfolio returned -0.41%¹ in January. The performance for the month reflects the Portfolio's exposure to United States interest rates, which moved lower, being outweighed by the negative performance of the New Zealand dollar.

2010: Portfolio construction

The Portfolio is an option in the Future Growth needs category. This needs category positioning reflects the Portfolio's aim to grow investors' capital over time by investing in a mix of income-producing and growth assets. Currently, the Portfolio aims to achieve this by investing in both credit and capital markets. As is the case for all of the Portfolios, this aim comes with the awareness that at all times, risk needs to be actively managed through the use of hedging to ensure that investors' capital is preserved.

In order to meet these goals, the Portfolio is constructed to be a blend of three distinct strategies or return silos, each with different risk and return characteristics. The three strategies are:

1. Opportunistic returns
2. Income generators
3. Relative value

Over the coming months, the 'Manager insight' will take a more in-depth look at each of these return silos (ie their purpose and the types of securities that investors can expect to find).

Strategy 1: Opportunistic returns

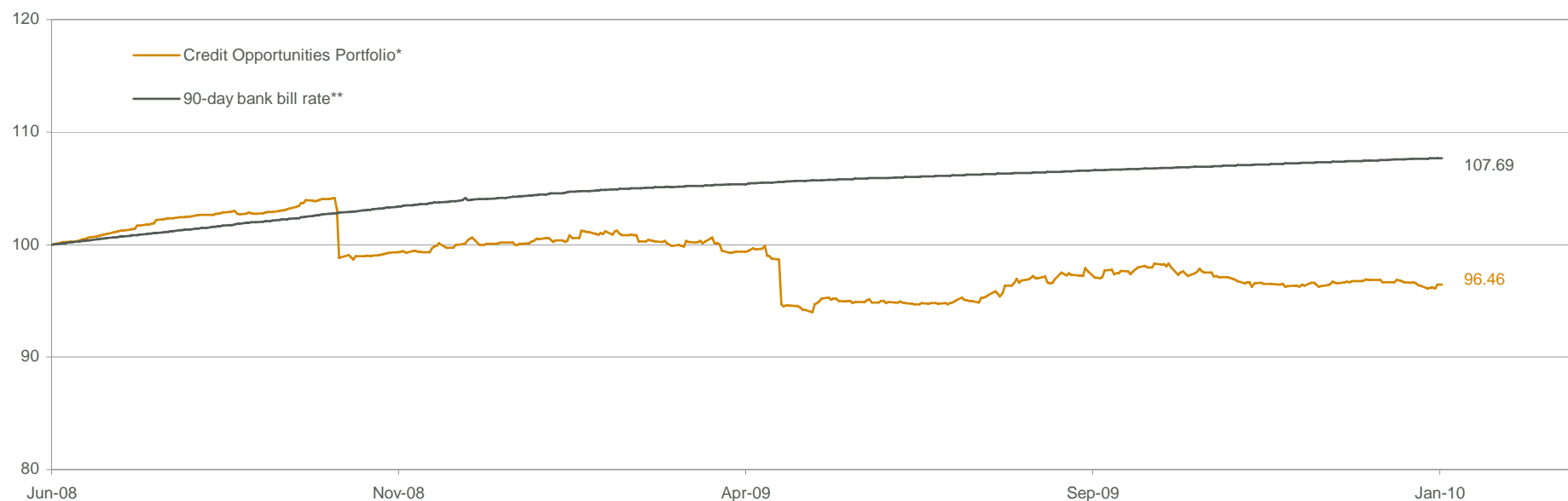
New Zealand Funds Management is looking to find investments that have the potential to generate significant returns and, in exceptional circumstances, to generate returns that are a multiple of the initial investment. Typically, credit investments that are capable of producing these types of returns also display a number of difficult characteristics. They may have very episodic returns, with significant periods of limited or no generation of income. They may also be difficult to sell (illiquid) and, more importantly, they have the potential for the capital invested to be lost. While this could make such investments a little scary, it is balanced by the fact that typically they are priced at a significant discount and, as such, they involve a relatively small initial outlay. Because of this, opportunistic securities will comprise a smaller percentage of the Portfolio.

At present, the Portfolio contains a number of securities which clearly fit into this category. The three CLO securities are not currently producing income, yet have the potential for significant capital appreciation. On the other hand, the deeply subordinated New Zealand mortgage-backed security, Sapphire III (discussed in the October 2009 'Manager insight'), is producing strong quarterly cashflows. However, given the uncertainty in the property market, the cash received is considered a partial return of capital. The result is that, since purchase in June 2009, 45% of the capital invested has been returned. This greatly increases the probability that the investment will generate large gains for the Portfolio in the future.

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 JANUARY 2010 (PART 1)

COP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	Interest rates; credit	Distressed and inv. grade credit	Credit
Neutral	Cash	Interest rate hedging	Cash
Negative	Interest rate hedging	Currency	Interest rates



COMPARISON	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	5 YEAR PA	7 YEAR PA	SINCE STRATEGY INCEPTION ¹	MAXIMUM DRAWDOWN ^x
Portfolio*	-0.41%	-0.65%	0.11%	-4.10%	-	-	-	-3.54%	-9.76%
90 day bank bill rate**	0.21%	0.64%	1.29%	2.85%	-	-	-	7.69%	-0.18%

¹ Pre-tax equivalent gross return. IMPORTANT: Please refer to the slide that follows for the footnotes relating to this slide.

PERFORMANCE SINCE 25 JUNE 2008 TO 31 JANUARY 2010 (PART 2)

Credit Opportunities 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. Due to the 'absolute return' nature of this Portfolio, cash is the most appropriate comparison.

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.

COMPLETE PORTFOLIO AS AT 31 JANUARY 2010

PORTFOLIO SUMMARY

Number of securities	12 ¹
Yield	5.0% ²
Weighted average credit rating	A-
Weighted average credit spread duration	0.5 years
Weighted average interest rate duration	5.6 years

SECTOR / SECURITY	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	EXPECTED MATURITY	S&P RATING	YIELD TO MATURITY ³
BANK DEPOSITS / BANK BILLS		18.0%			
Westpac (Bank deposits)	\$1,689,043	15.0%	Current	A1+	2.5%
Kiwibank (Bank bills)	\$232,173	2.1%	Apr-10	A1+	2.8%
ANZ (Bank bills)	\$232,140	2.1%	Apr-10	A1+	2.8%
ASB Bank (Bank bills)	\$215,589	1.9%	Apr-10	A1+	2.8%
FX Asset	-\$348,951	-3.1%	n/a	A1+	n/a
CORPORATE BONDS		19.3%			
Works Finance NZ	\$1,570,009	14.0%	Sep-12	BBB	7.4%
Woolworths	\$593,649	5.3%	Nov-11	A-	4.8%
GOVERNMENT / GOVERNMENT-GUARANTEED BONDS		59.4%			
US Treasury	\$6,676,468	59.4%	Jun-21	AAA	6.2%
RESIDENTIAL MORTGAGES		2.5%			
Sapphire New Zealand mortgage security	\$284,536	2.5%	Jul-37	BB	20.0%
STRESSED ASSETS		0.8%			
CLO equity (4 securities)	\$91,563	0.8%	Dec-10	NR	0.0%
TOTAL ECONOMIC EXPOSURE	\$11,236,219	100.0%			

¹ The Portfolio often holds more than one security under a given issuer. The 'number of securities' takes this into account. 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. 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 (also calculated on a pre-tax and fees basis). Therefore, 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 yield to maturity is stated before the deduction of management, custodial and trustee fees. 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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