

Manager insight – 31 March 2009

The Credit Opportunities Portfolio returned -0.13%¹ for the month of March. Since strategy inception (25 June 2008), the Portfolio has returned 0.14%¹ versus the Credit Suisse Leveraged Loan Index which returned -22.17%².

Market experienced a sea-change of sentiment in March as it shifted dramatically from depression to euphoria. Notwithstanding this marked sentiment change in the broader market, NZ Funds continues to expect a difficult and turbulent year ahead.

Given this divergence between the short-term market direction and the manager's core view, it was not prudent to take on active positions during March – which fully reflected the market euphoria. Instead, the only active positions taken were those that were consistent with the core view and reflected short-term positioning and momentum.

Positions taken during the month were:

1) An exposure (long position) to US Government Bonds via the US 10-year treasury (future). This position ended the month with a small loss of approximately -0.02%. This position remains open.

2) A position favouring the Australian dollar over the New Zealand dollar - short position in the NZ dollar against the Australian dollar (sold NZD/AUD). This position was closed for a loss of -0.30%.

3) Various short positions in the NZ dollar against the US dollar (sold NZD/USD). The net impact of these trades was flat (no gain or loss) for the month.

As part of the recent shift in strategy to more active trading of liquid markets, NZ Funds is also begun to add a number of high quality but attractively priced corporate bonds to the Portfolio to boost the running yield. The first of these positions is a 3% allocation to a Woolworths corporate bond maturing in November 2011.

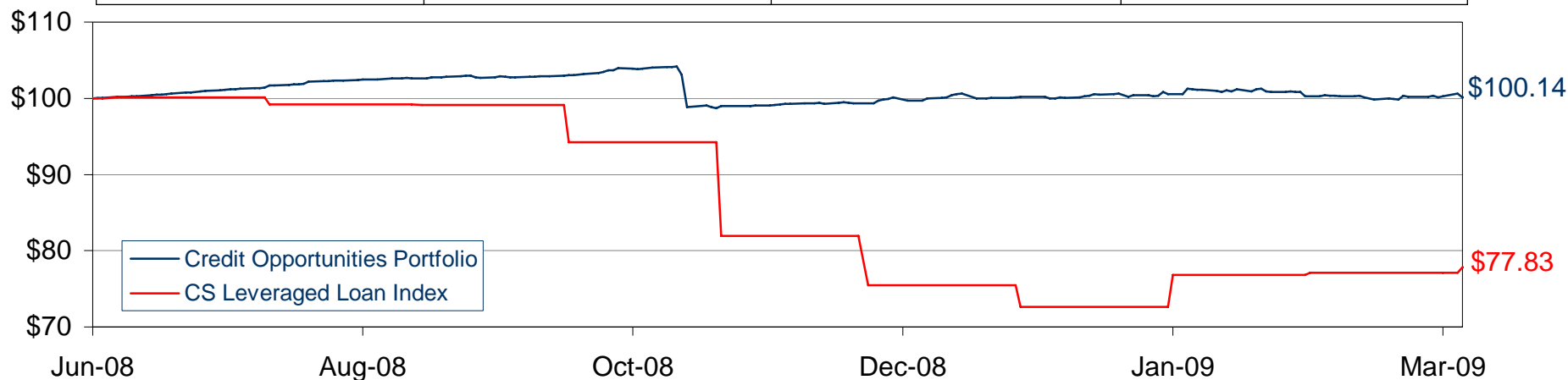
The Woolworths bond was purchased at a credit spread of 4% over the benchmark interest rate for the same maturity. We see this as an exceptionally opportunity to get high running yield from a short maturity bond issued by a corporate of the caliber of Woolworths. Woolworths operates in one of the most defensive of industries, food retailing, is the dominant player in its market and has a conservatively geared balance sheet with leverage as measured by net debt / EBITDA of just 0.7 times.

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 Source: Bloomberg.

Credit Opportunities Portfolio

Performance since 25 June 2008 to 31 March 2009

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



One-month return	Three-month return	Six-month return	One-year return	Since inception return pa
-0.13%	-0.02%	-2.81%	-	-

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. The Portfolio was launched on 20 May 2008. As the Portfolio was only invested on 25 June 2008, performance is measured from this date.

Credit Opportunities Portfolio

Portfolio summary as at 31 March 2009

Portfolio summary

Cash	34%
Debt securities	66%

Sector / Security	Portfolio value	Proportion of portfolio
Bank deposits / Bank bills		34%
ANZ (Bank bills)	\$412,516	4%
ASB Bank (Bank bills)	\$447,663	4%
BNZ (Bank bills)	\$390,822	4%
Kiwibank (Bank bills)	\$482,062	5%
Westpac (Bank deposits)	\$1,233,427	12%
Westpac (Bank bills)	\$465,862	5%
Corporate bonds (short dated)		28%
Telstra Corporation	\$2,168,604	21%
Woolworths	\$654,079	6%
Government guaranteed bonds		27%
Westpac Bank (Government Guaranteed)	\$2,704,981	27%
Stressed assets		12%
CLO rated (3 securities)	\$134,788	1%
CLO equity (4 securities)	\$1,080,762	11%
Debt strategies		0%
June US Dollar Index Futures	-\$46	0%
Total	\$10,175,520	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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