

## Manager insight – 31 May 2009

The Credit Opportunities Portfolio returned 0.30%<sup>1</sup> for the month of May. Since strategy inception (25 June 2008), the Portfolio has returned -5.12%<sup>1</sup>.

At the end of April, the manager noted that the Portfolio was being developed to focus on the following: firstly, investment opportunities in less speculative credit assets that have the ability to provide both strong and attractive yields and where there is scope for capital gain; and secondly, trading strategies in liquid capital markets such as interest rates and currencies.

### **Bond Insight: Work Finance**

At the end of May, a significant position in a corporate bond was added to the Portfolio. This is a good example of the investment opportunities in less speculative credit assets. The position is a senior bond issued by Works Finance NZ Limited, a subsidiary of the Australian Infrastructure business Downer EDI. This bond matures on 15 September 2012 and will pay a coupon of not less than 9.25% (the final coupon was set at 9.50%)

This security is rated investment grade, but at BBB- it is at the more risky end of the spectrum. The lower rating reflects the fact that the business has a high degree of leverage. Basic leverage is only 1.8x (EBITDA).

However, once debt is adjusted for operating leases – which are a form of debt financing – leverage increases to 4x earnings. The high level of debt is reflected in the low investment-grade rating and the generous yield. However, there are a number of mitigants which make this an attractive opportunity:

- Short term to maturity of the bond issue.
- A mature business broadly diversified across Works (roading etc), engineering, mining and rail.
- Long contract times and a strong order book.
- Increased infrastructure spending by Government (especially Australia).
- Strong bond features including a yield increase on downgrade, change of control provisions, benefit of guarantees and negative pledge from the Downer Group.

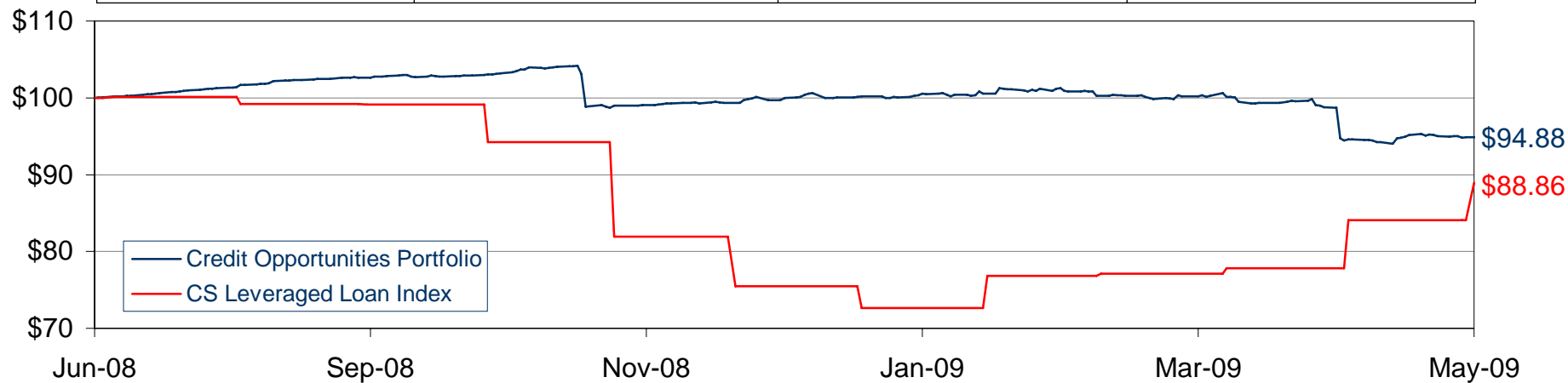


<sup>1</sup> Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

# Credit Opportunities Portfolio

Performance since 25 June 2008 to 31 May 2009

Performance attribution	One month	Three month	Six month
Positive	Short-term currency positions	-	-
Neutral	n/a	-	-
Negative	n/a	-	-



One-month return	Three-month return	Six-month return	One-year return	Since inception return pa
0.30%	-5.38%	-4.46%	-	-

## Portfolio summary as at 31 May 2009

### Portfolio summary

Cash	51%
Debt securities	49%

Sector / Security	Portfolio value	Proportion of portfolio
<b>Bank deposits / Bank bills</b>		<b>51%</b>
ANZ (Bank bills)	\$507,717	5%
ASB Bank (Bank bills)	\$534,002	5%
BNZ (Bank bills)	\$450,040	4%
Kiwibank (Bank bills)	\$543,987	5%
Westpac (Bank deposits)	\$432,443	4%
Westpac (Bank bills)	\$2,898,905	26%
FX Asset	\$363,902	3%
<b>Corporate bonds (short dated)</b>		<b>25%</b>
Woolworths	\$592,448	5%
Works Finance NZ*	\$2,223,064	20%
<b>Australian government-guaranteed bonds</b>		<b>22%</b>
Westpac	\$2,491,296	22%
<b>Stressed assets</b>		<b>1%</b>
CLO equity (4 securities)	\$96,569	1%
<b>Debt strategies</b>		<b>0%</b>
<b>Total</b>	<b>\$11,134,373</b>	<b>100%</b>

\*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.

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