

Portfolio overview – 31 May 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 – 31 May 2009

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

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.

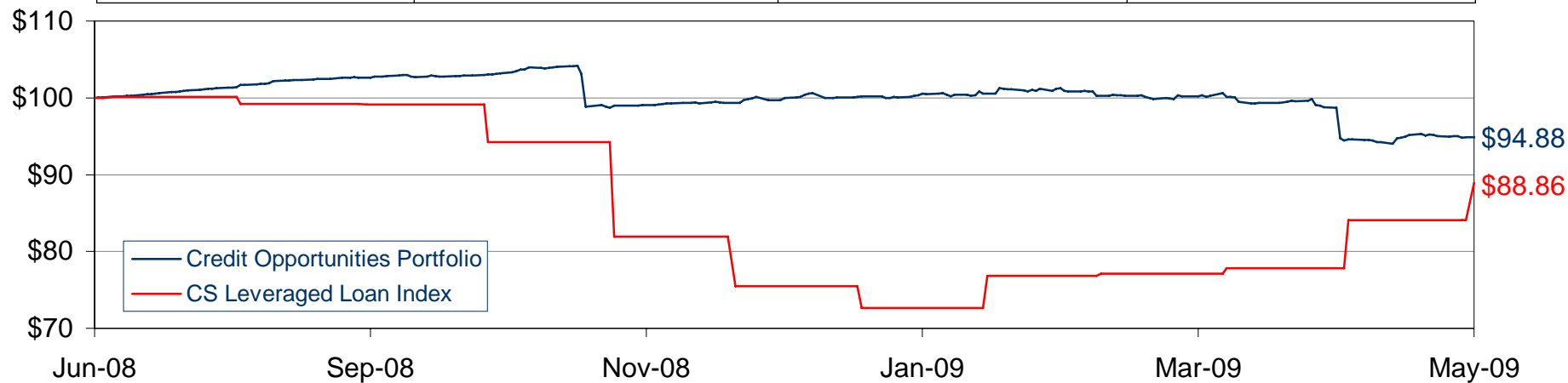


¹ Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

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
Bank deposits / Bank bills		51%
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%
Corporate bonds (short dated)		25%
Woolworths	\$592,448	5%
Works Finance NZ*	\$2,223,064	20%
Australian government-guaranteed bonds		22%
Westpac	\$2,491,296	22%
Stressed assets		1%
CLO equity (4 securities)	\$96,569	1%
Debt strategies		0%
Total	\$11,134,373	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.

DISCLAIMER: This document has been provided for information purposes only. The content of this document is not intended as a substitute for specific professional advice on investments, financial planning or any other matter.

While the information provided in this document is stated accurately to the best of our knowledge and belief, New Zealand Funds Management Limited, its directors, employees and related parties accept no liability or responsibility for any loss, damage, claim or expense suffered or incurred by any party as a result of reliance on the information provided and opinions expressed in this document except as required by law.