

MANAGER INSIGHT – 31 MAY 2010

The Portfolio returned -0.48%¹ in May. This takes the year-to-date performance to 2.97%¹. The negative performance for the month primarily reflects the impact of wider credit spreads following a month of uncertainty across global markets. The currency overlay strategies added a small negative contribution to the Portfolio's performance, as gains in the short Euro position were outweighed by other currency pairs.

Bond insight: Comcast Corporation

This month's insight takes a closer look at one of the Portfolio's global corporate bond holdings, Comcast Corporation. Comcast is one of the major providers of pay television, phone and broadband services in North America. In New Zealand there are no simple comparisons to Comcast's business, but it would be like merging Sky TV with Telecom's broadband and home phone business.

The company started life as a pay television provider, but over recent years the company has utilised its investment footprint and cable network to compete with telecommunications companies in offering phone and broadband services. Currently, Comcast has 24 million pay television customers, 16 million high-speed broadband customers and 8 million home phone customers across 39 states in the United States. The company has 100,000 employees and has a market capitalisation of NZ\$76 billion.

Given the current debate surrounding the future of high-speed internet in New Zealand, it is interesting to note that one of the primary reasons behind

Comcast's success in capturing customers from more traditional telecom companies is the speed of its broadband service. Comcast is able to offer customers broadband speeds of up to 50 megabytes per second. To put this in context, this is approximately six times faster than the maximum ADSL broadband available in New Zealand.

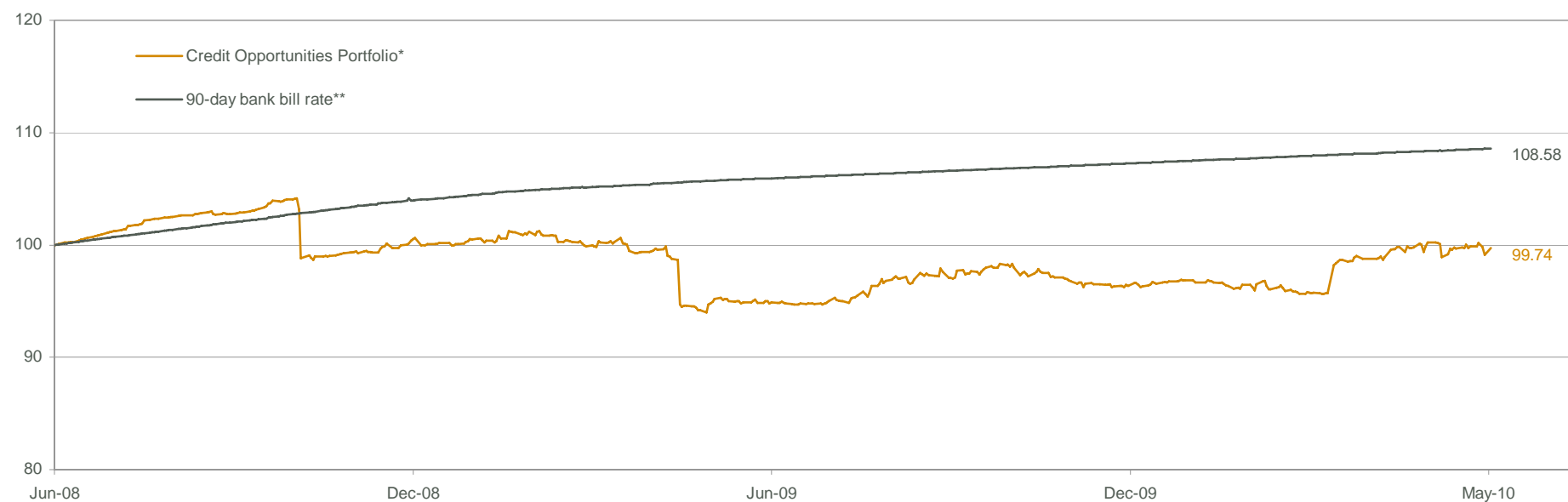
New Zealand Funds Management considers owning corporate bonds issued by Comcast an attractive proposition for a number of reasons. Firstly, the company's monthly subscriptions generate revenues that exhibit annuity style characteristics. In other words, the company's cash flows are very stable. Secondly, Comcast has used these stable cash flows to decrease the company's debt levels rather than undertake shareholder-friendly actions such as paying higher dividends or buying back shares. This has seen the debt level reduce from more than three times annual earnings to around two times annual earnings.

As an active investment manager, New Zealand Funds Management specifically chooses bonds from around the world, such as Comcast, that can increase the probability of the Portfolio achieving clients' investment objectives. This is then supplemented with risk management strategies (covering interest rates, credit spreads and currencies) which allow clients to participate in positive markets, while providing them with some protection when significant market corrections occur. This ensures that the Portfolio is continually responding to both investment opportunities and risks as they develop, in a way that cannot be matched by those who take a buy-and-hold approach to fixed income investments.

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 MAY 2010 (PART 1)

COP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	Interest rates; currency	Distressed and inv. grade credit	Credit
Neutral	Distressed credit; cash	Government bonds	Cash
Negative	Investment grade credit	Interest rate hedging	Interest rate hedging



COMPARISON	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	5 YEAR PA	7 YEAR PA	SINCE INCEPTION	MAXIMUM DRAWDOWN*
Portfolio*	-0.48%	4.30%	3.54%	5.12%	-	-	-	-0.26%	-9.76%
90 day bank bill rate**	0.20%	0.62%	1.27%	2.58%	-	-	-	8.58%	-0.18%

IMPORTANT: Please refer to the slide that follows for the footnotes relating to this slide.

PERFORMANCE SINCE 25 JUNE 2008 TO 31 MAY 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 MAY 2010

PORTFOLIO SUMMARY

Number of securities	20 ¹
Yield	6.1% ²
Weighted average credit rating	BBB ³
Weighted average credit spread duration	6.1 years
Weighted average interest rate duration	5.8 years

SECTOR / SECURITY	PORTFOLIO VALUE	PROPORTION OF PORTFOLIO	EXPECTED MATURITY	S&P RATING	YIELD TO MATURITY ⁴
BANK DEPOSITS / BANK BILLS		13.0%			
Westpac (Bank deposits)	\$1,687,228	15.8%	Current	A1+	2.5%
FX Asset	-\$298,840	-2.8%	n/a	A1+	n/a
NEW ZEALAND / AUSTRALIAN CORPORATE BONDS		19.4%			
Fonterra 7.75% 10/03/2015	\$515,984	4.8%	Mar-15	A+	6.5%
University of Canterbury 7.25% 15/12/2019	\$496,695	4.7%	Dec-19	NR	7.1%
Meridian Energy 7.55% 16/03/2017	\$425,544	4.0%	Mar-17	BBB+	6.8%
Vector 7.5% 15/10/2014	\$423,001	4.0%	Oct-14	BBB+	6.9%
The Warehouse 7.3% 15/06/2015	\$205,594	1.9%	Jun-15	NR	7.2%
GLOBAL CORPORATE BONDS		33.6%			
Simon Property Group 5.65% 01/02/2020	\$544,938	5.1%	Feb-20	A-	8.3%
Oracle 6.125% 08/07/2039	\$538,216	5.0%	Jul-39	A	7.6%
Citigroup 7.825% 18/05/2012	\$523,215	4.9%	May-12	A-	7.0%
Rio Tinto 9% 01/05/2019	\$520,070	4.9%	May-19	BBB+	8.0%
Comcast 5.7% 01/07/2019	\$516,382	4.8%	Jul-19	BBB+	7.1%
Barrick Australia 4.95% 15/01/2020	\$485,712	4.5%	Jan-20	BBB+	7.2%
Goldman Sachs 5% 15/03/2020	\$460,007	4.3%	Mar-20	A+	8.4%
RESIDENTIAL MORTGAGES		2.7%			
Sapphire New Zealand mortgage security	\$292,530	2.7%	Jul-12	BB	20.0%
EXTERNALLY MANAGED FUNDS		30.9%			
iShares iBoxx Investment Grade US Corporate Bond Fund	\$3,302,011	30.9%	May-22	BBB+	7.2%
STRESSED ASSETS		0.2%			
CLO equity (2 securities)	\$22,296	0.2%	Dec-10	NR	0.0%
DEBT STRATEGIES		0.0%			
International interest rate hedges - cash	\$1,306,096	12.2%	n/a	n/a	n/a
New Zealand/Australia interest rate hedges	\$1,298,681	12.2%	n/a	n/a	n/a
International interest rate hedges	-\$1,306,096	-12.2%	n/a	n/a	n/a
New Zealand/Australia interest rate hedges - cash	-\$1,298,681	-12.2%	n/a	n/a	n/a
CURRENCY STRATEGIES		22.0%			
United States Dollar/Norwegian Krone	\$797,721	7.5%	n/a	n/a	n/a
United States Dollar/Euro	\$793,933	7.4%	n/a	n/a	n/a
Yen/Swiss Franc	\$762,209	7.1%	n/a	n/a	n/a
New Zealand Dollar/Yen	\$0	0.0%	n/a	n/a	n/a
New Zealand Dollar/United States Dollar	\$0	0.0%	n/a	n/a	n/a
TOTAL ECONOMIC EXPOSURE⁵	\$13,014,446	121.9%			

¹ The Portfolio often holds more than one security under a given issuer. The 'number of securities' represents the total securities held by the Portfolio. However, in the table all securities from a given issuer are treated as one security. 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. 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 weighted average credit rating is calculated excluding the University of Canterbury and The Warehouse bonds. The University of Canterbury and The Warehouse bonds have not been rated by a ratings agency. Our internal analysis suggests that if the bonds were to be rated, they would each receive an investment-grade rating. ⁴ The yield to maturity is stated before the deduction of management, custodial and trustee fees. ⁵ Total economic exposure represents the total economic value of a Portfolio, which is the gross asset value of the Portfolio adjusted for the effect of direct or indirect derivative positions taken by the Portfolio. 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.

DISCLAIMER: These Portfolio Insights have 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 these Portfolio Insights except as required by law.