Dividend Yield Portfolio

NZFUNDS

Portfolio overview – 28 February 2009

Needs category objective

- Meet the need of an investor to grow capital to provide for future requirements.

Investment objective

- Achieve higher returns than bank deposits over the minimum investment time frame through a focus on dividend-paying New Zealand and Australian shares.

Key features

- A diversified selection of high-dividend-paying New Zealand and Australian shares, combined with cash and capital notes.

- Actively managed to ensure each share held remains a high-dividend-yielding share. Should the dividend yield fall due to price appreciation or a cut in the dividend, the share is sold in a timely manner and the proceeds reinvested in an alternative high-dividend-yielding share. This ensures that dividends are at all times a strong component of the Portfolio's investment returns.

Risk management

- Portfolio risk is controlled in three ways. First, after screening the Australasian markets for high-yielding shares, detailed fundamental security analysis is used to separate high quality, sustainable companies from more speculative or highly leveraged companies. Second, portfolio construction dictates that exposure to any one share is limited and the proportion of the Portfolio allocated to cyclical companies remains below 25% of all shares held. Finally, the Portfolio utilises NZ Funds' risk management strategy to manage volatility associated with the share market. NZ Funds' risk management strategy may result in the Portfolio's share exposure being partially hedged.

Return enhancement

- Uses a two-stage process whereby New Zealand and Australian share markets are screened for high-yielding shares. The resulting securities are then subjected to detailed fundamental analysis. The manager seeks to invest in shares of a high quality with sustainable franchises where the intrinsic value is substantially higher than the current market price.

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Manager insight – 28 February 2009

The Dividend Yield Trust returned -5.21%[1] for the month of February. Although the Trust is down in absolute terms, this compares favourably to the performance of the New Zealand share market which was down 9.08%[2].

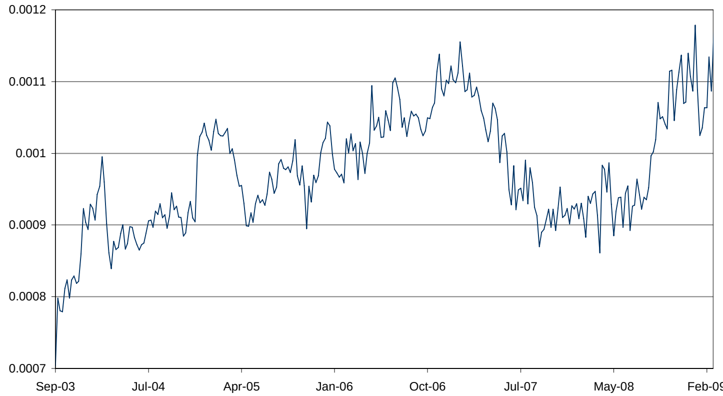
February proved to be an extremely difficult month for the New Zealand share market. A poor reporting season and weak global markets combined to leave virtually every stock lower, with several materially lower. Disappointingly, the Fund had a holding in Fisher & Paykel Appliances which not only announced that its full year earnings were going to fall well short of expectations, but also that its debt had increased and it would need to raise additional capital. This meant that it would not be paying a dividend and resulted in the Trust promptly exiting the share. Fortunately, the Trust is a portfolio that comprises many investments and, consequently, this one security did not unduly impact the performance of the Trust.

Share insight: Freightways

Freightways is a share that has been quite volatile in recent months, as investors have become concerned about how resilient its earnings will be in the current economic downturn. We have continued to hold the stock with the view that earnings would hold up better than expected. Ultimately, this company's half-year result was robust and it was one of the few shares which saw its price rise during the month of February.

Although Freightways' share price has not seen much growth in recent months, as the chart below shows, when compared to the rest of the NZX50 it has actually been a very strong performer in relative terms.

Freightways share price relative to NZ shares



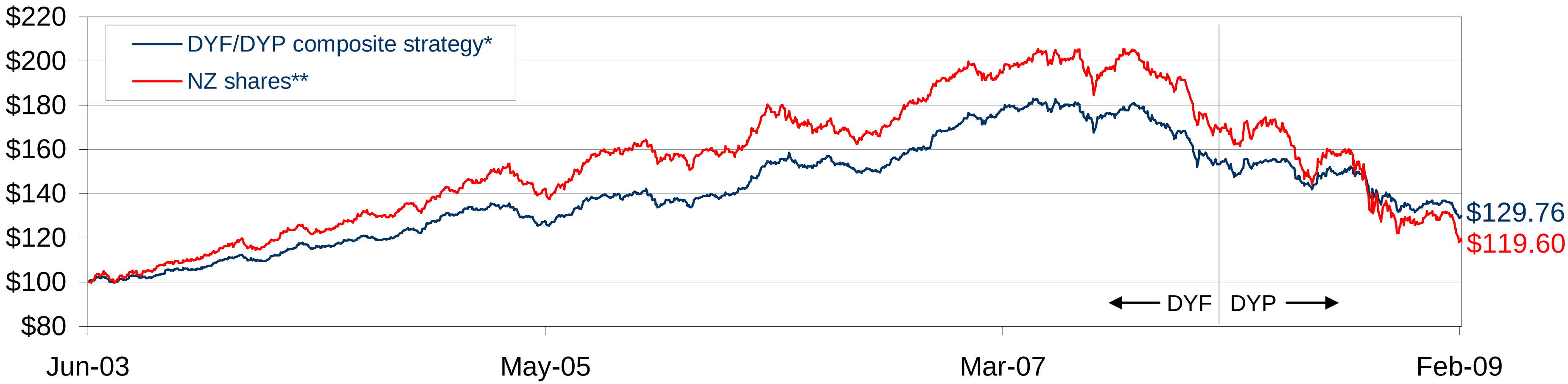
Moreover, even though Freightways has held up better than much of the market, we still think it is good buying. On an EBIT multiple of 10x, which implies a pre-tax operating yield of 10% for existing owners (or acquirers) the stock looks reasonable value. However this valuation ignores Freightways' impressive growth record (19% compound annual profit growth over the 4 years to the end of June 2008). Additionally, a significant chunk of the yield accruing to owners is in the form of dividends (the projected dividend for 2009 is 16cps, a yield to the price at the end of February of more than 5%). At current prices investors are purchasing a partially defensive stock with a good yield and strong cash earnings.

[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. NZ shares represented by NZX50 Index. The asset class index in the chart (NZX50 Index) is not for benchmarking purposes but rather to demonstrate the performance of the largest asset class allocation in the Portfolio.

Dividend Yield Portfolio

Performance to 28 February 2009 for DYF/DYP composite strategy*

Performance attribution	One month	Three month	Six month
Positive	Cash holdings; Freightways	-	-
Neutral	n/a	-	-
Negative	Fisher & Paykel Appliances	-	-



DYP return One-month	DYP return Three-month	DYP return Six-month	DYP return One-year
-5.21%	-3.41%	-13.25%	-16.01%

Composite strategy return Since inception pa
4.65%

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. *Dividend Yield Fund (DYF) data from 6 Jun 03 to 28 Feb 08. Dividend Yield Portfolio (DYP) data from 28 Feb 08 to 28 Feb 09. **Source: Bloomberg. NZ shares represented by NZX50 Index. The asset class index in the chart (NZX50 Index) is not for benchmarking purposes but rather to demonstrate the performance of the largest asset class allocation in the Portfolio.

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Portfolio summary as at 28 February 2009

Portfolio summary	
Number of securities	25
Cash, capital notes & other	47%
Shares	53%
Weighted average yield	9.1%
Average market capitalisation (share holdings)	$1.6b

Sector / Security	Proportion of portfolio	Market cap ($m)	Yield*	Payout ratio
Cash	**42%**			
Cash		-		-
Cyclicals	**10%**			
Fletcher Building		$2,566	12.0%	76%
Freightways		$368	7.9%	67%
Methven		$70	15.9%	80%
Restaurant Brands		$69	13.5%	63%
Non Cyclicals	**43%**			
AMP NZ Office Trust		$619	12.0%	98%
Contact Energy		$3,264	6.7%	91%
Fisher & Paykel Healthcare		$1,671	5.3%	102%
Goodman Fielder		$1,444	7.8%	77%
Goodman Property Trust		$733	16.4%	100%
Infratil		$794	5.5%	160%
Kiwi Income Property		$703	11.5%	99%
Lion Nathan		$4,525	5.3%	79%
Port of Tauranga		$726	6.6%	79%
Sky City		$1,259	8.4%	74%
Telecom		$4,119	9.9%	96%
Trustpower		$2,224	8.2%	117%
Vector		$2,182	8.6%	82%
Capital Notes & Other	**5%**			
Kiwi Income Property MCN		-	8.3%	-
Fletcher Building 7.5% 15 Mar 2012		-	9.2%	-
GPG Finance 9% 15 Dec 2013		-	12.0%	-
Infratil 8.5% 15 Sep 2013		-	11.0%	-
Sky City 8% 15 May 2010		-	8.6%	-
TrustPower 8.5% 15 Mar 2014		-	7.7%	-
Total	**100%**		**9.1%**	

*Yields forecast by NZ Funds for each company's current financial year. Where applicable, the security's yield reflects the benefit derived from imputation credits received.
Note: Rounding may affect the subtotals and totals.

Notes

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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