PORTFOLIO OVERVIEW – 30 JUNE 2010

Needs category objective

> To provide clients with an allocation of funds to grow their capital and, in doing so, provide for their future needs.

Investment objective

> To invest in a mix of income-producing and growth assets made up of shares of companies displaying high dividend yields, utilising active investment management.

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 35% of all shares held. Finally, the Portfolio utilises New Zealand Funds Management’s risk management strategy to manage volatility associated with the share market. New Zealand Funds Management’s 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.

MANAGER INSIGHT

This ‘Manager insight’ takes a closer look at Contact Energy, a leader in New Zealand’s energy sector. In June, the Portfolio had more than 2% of its assets in Contact Energy.

Share insight: Contact Energy

“Renewable energy is proven technology, the price is dropping, the rest of the world is going that way, that's where our investment should be going as well.”

- Bob Brown, Australian Greens Politician and Environmentalist

One of the companies investing in renewable energy in New Zealand is Contact Energy (Contact). It is both an electricity generator and retailer which means that the company earns revenue from generating electricity and also from selling electricity to retail customers. Contact has over 600,000 electricity, gas and LPG customers and produces around 30% of New Zealand’s electricity requirements.

Contact generates electricity from both renewable and non-renewable sources. Around half of Contact’s generation comes from renewable sources such as hydro and geothermal, and the other half from thermal sources such as gas. Contact has plans to reinvent itself as a renewable-based generator, aiming to produce 80% of its electricity from renewable sources by 2014.

Renewable energy is a hot topic right now following the introduction of the Emissions Trading Scheme. From 1 July 2010, electricity generators will be charged for the right to produce greenhouse gases. The government has determined that generators will be able to pass on the increased costs to customers and therefore will not be eligible for any subsidies. While Contact will need to pay emissions taxes on its thermal generation, this should be recouped via higher prices. Higher prices make Contact’s renewable energy even more valuable – Contact will not have to pay emissions charges on its renewable generation, but will benefit from the higher prices. For Contact, this increases the appeal of investing in renewable-based generation.

As well as the introduction of the Emissions Trading Scheme, Contact has been prompted to invest in renewable energy because of rising gas costs. In the past, Contact has had access to cheaply priced gas from the Maui gas field. This enabled Contact to produce electricity at a relatively low cost. Maui has now run dry and Contact must pay market prices for gas. Contact’s gas costs have increased by approximately 25%.

The first stage in moving away from gas-based generation is Contact’s $100 million investment in Tauhara One, a geothermal-based power station near Taupo. The project was completed three weeks early and under budget. Contact is planning further investment in the area and the consent process has been fast-tracked by the government.

The rising gas costs have been a major contributor to the decline in Contact’s profit margin. Contact’s profit margin has fallen from 22% in 2000 to 13% last year. If Contact is able to expand its margin back towards 20%, its earnings before interest and tax have the potential to double and with it, the share price.

TAX-ADJUSTED PERFORMANCE TO 30 JUNE 2010 FOR DIVIDEND YIELD COMPOSITE STRATEGY* (PART 1)

DYP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	Hallenstein Glasson	Restaurant Brands	Mainfreight
Neutral	TrustPower	Westpac	Fletcher Building
Negative	Air New Zealand	Goodman Fielder	The Warehouse

COMPARISON	DYP 1 MONTH	DYP 3 MONTH	DYP 6 MONTH	DYP 1 YEAR	DYP 2 YEAR PA	COMPOSITE 5 YEAR PA	COMPOSITE 7 YEAR PA	COMPOSITE SINCE INCEPTION[1]	COMPOSITE MAXIMUM DRAWDOWN[X]
Dividend Yield Composite Strategy*	2.20%	-1.37%	-3.51%	5.65%	-0.77%	1.62%	7.09%	358.34%	-36.26%
Comparative index**	-2.01%	-6.32%	-5.46%	4.84%	-1.39%	0.41%	4.62%	235.08%	-31.30%

[1] Pre-tax equivalent gross return. IMPORTANT: Please refer to the slide that follows for the footnotes relating to this slide

TAX-ADJUSTED PERFORMANCE TO 30 JUNE 2010 FOR DIVIDEND YIELD COMPOSITE STRATEGY* (PART 2)

Tax-adjusted Performance

* The Dividend Yield Composite Strategy is a tax-adjusted composite strategy 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 Composite Strategy

The Dividend Yield Composite Strategy is made up of the New Zealand Equity Trust (EIT) from 2 December 1992 to 6 June 2003, the Dividend Yield Fund (DYF) from 6 June 2003 to 28 February 2008, and the Dividend Yield Portfolio (DYP) data from 28 February 2008 onwards.

EIT was a New Zealand Unit Trust. DYF was established as an Australian Unit Trust. DYP is a PIE. The tax-adjusted composite strategy is designed to remove, as much as possible, the impact of the different tax regimes that applied during the calculation period. By doing so it enables the returns from EIT, DYF and DYP to be represented in a substantially consistent manner without tax distortions.

The Dividend Yield Composite Strategy covers five different tax regimes, and accordingly the use of different calculation methods is necessary to remove the impact of the various regimes. These are:

i) The period to 6 June 2003. New Zealand Unit Trust returns were reported net of tax and have been grossed up by 33% (being the tax rate applicable to New Zealand Unit Trusts) to reflect the pre-tax position.

ii) The period 6 June 2003 to 30 September 2005. Australian Unit Trust returns were generally not taxable to investors, and to provide a comparison the returns have been grossed up by 33% to reflect that actual returns were after tax.

iii) The period from 1 October 2005 to 31 March 2007. Investors were only taxable on distributions made by Australian Unit Trusts. The returns have therefore been grossed up by 33% and adjusted for any tax payable on distributions made.

iv) The period from 1 April 2007 to 28 February 2008. Australian Unit Trust holdings were subject to the Fair Dividend Rate regime. The returns have been grossed up by the tax amount payable under the Fair Dividend Rate regime.

v) The period from 28 February 2008. PIE returns are reported gross of tax, and as such no adjustment has been made to returns attributable to DYP.

This calculation is undertaken for comparative purposes only, and should not be confused with the portfolio return generated from either EIT, DYF or DYP. More details on these calculations, together with the formulae used, are available on request from New Zealand Funds Management.

TAX-ADJUSTED PERFORMANCE TO 30 JUNE 2010 FOR DIVIDEND YIELD COMPOSITE STRATEGY* (PART 3)

Comparative Index

** The comparative index is made up of 70% NZX50 Index and 30% 90-day bank bill rate. All index figures are sourced from Bloomberg. A fee of 0.60% pa has been deducted from the NZX50 Index to reflect the cost of obtaining a passive New Zealand share market exposure using an Exchange Traded Fund and the brokerage associated with purchasing it. A fee of 0.20% pa has been deducted from the 90-day bank bill rate as bank bills are usually accessed by retail investors through a managed fund. The 90-day bank bill rate has been included in the comparison because the mandate allows the manager to invest up to 30% of the Portfolio in cash and capital notes. The comparative index is stated on a pre-tax basis.

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 strategy and the comparison. The maximum drawdown is a measure of volatility and represents the largest decline in value experienced during the reporting period.

* The Dividend Yield Composite Strategy is a tax-adjusted composite strategy stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

COMPLETE PORTFOLIO AS AT 30 JUNE 2010

PORTFOLIO SUMMARY

Number of securities	27
Yield[1]	7.2%
Weighted average market cap (share holdings)	$9.3b
Cash, capital notes & other	8%
Shares	92%
Total economic exposure	100%

SECTOR / SECURITY	COUNTRY	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	MARKET CAP (NZ$M)	PRICE/ EARNINGS	PRICE/ BOOK	PAYOUT RATIO	YIELD
CASH			3.0%					
Bank deposits / Bank bills	New Zealand	$1,413,472	3.0%	n/a	n/a	n/a	n/a	2.9%
CYCLICALS			37.6%					
The Warehouse	New Zealand	$3,414,498	7.3%	$1,058	11.6	3.1	78%	9.0%
Freightways	New Zealand	$3,357,352	7.2%	$422	12.6	2.6	76%	7.6%
Fletcher Building	New Zealand	$2,414,138	5.2%	$4,765	12.1	1.6	55%	5.0%
Hallenstein Glassons	New Zealand	$1,299,932	2.8%	$218	12.0	3.6	95%	9.4%
Metcash	Australia	$1,216,553	2.6%	$3,208	11.7	2.5	79%	5.1%
Mainfreight	New Zealand	$1,175,864	2.5%	$606	11.5	2.0	59%	4.3%
Spotless	Australia	$1,154,438	2.5%	$555	9.6	1.2	78%	6.9%
Air New Zealand	New Zealand	$1,118,751	2.4%	$1,174	9.6	0.8	70%	8.4%
STW Communications	Australia	$1,085,060	2.3%	$333	8.0	1.0	50%	5.5%
Restaurant Brands	New Zealand	$1,042,543	2.2%	$222	8.2	4.5	52%	5.3%
Skellerup Holdings	New Zealand	$269,832	0.6%	$130	10.1	1.4	55%	6.0%
NON CYCLICALS			54.0%					
Trustpower	New Zealand	$3,712,298	8.0%	$2,268	16.8	1.6	93.0%	7.5%
Goodman Fielder	New Zealand	$2,366,031	5.1%	$1,857	9.3	1.1	80.0%	7.6%
Auckland International Airport	New Zealand	$2,346,172	5.0%	$2,437	20.4	1.2	100.0%	6.2%
Goodman Property	New Zealand	$2,318,219	5.0%	$798	11.1	0.9	93.0%	13.2%
Fisher & Paykel Healthcare	New Zealand	$2,299,492	4.9%	$1,588	17.2	5.4	95.0%	5.7%
Coca Cola Amatil	Australia	$1,464,930	3.1%	$9,023	16.3	5.6	70.0%	3.3%
Foster's	Australia	$1,238,217	2.7%	$10,907	14.6	2.9	77.0%	4.1%
ANZ Banking Group	New Zealand	$1,237,422	2.7%	$54,754	10.4	1.7	64.0%	5.1%
Port of Tauranga	New Zealand	$1,219,694	2.6%	$882	16.9	1.4	79.0%	5.9%
AMP NZ Office Trust	New Zealand	$1,206,098	2.6%	$698	11.7	0.8	96.0%	11.8%
Kiwi Income Property	New Zealand	$1,198,003	2.6%	$735	13.4	0.6	98.0%	11.6%
Contact Energy	New Zealand	$1,173,893	2.5%	$3,418	19.6	1.1	96.0%	6.9%
Sky City	New Zealand	$1,164,736	2.5%	$1,639	12.0	2.1	69.0%	7.8%
Commonwealth Bank of Australia	Australia	$1,143,836	2.4%	$75,331	11.1	2.2	76.0%	5.7%
Westpac	New Zealand	$1,123,261	2.4%	$63,207	9.9	1.7	69.0%	6.1%
CAPITAL NOTES & OTHER			5.4%					
Kiwi Income Property MCNs	New Zealand	$2,512,999	5.4%	n/a	n/a	n/a	n/a	9.0%
TOTAL ECONOMIC EXPOSURE - ALL GIS PORTFOLIOS[2]		$46,687,734	100.0%					7.2%

[1] The yield calculation represents an estimate of the yield on the Portfolio, calculated using yields forecast by New Zealand Funds Management for each company's current financial year. Where applicable, the security's yield reflects the benefit derived from imputation credits received. The yield is not the return on 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. [2] 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.

NZFUNDS

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.