Dividend Yield Portfolio

Manager insight – 30 November 2009

The Portfolio returned -1.26%[1] in November, while the NZX50 Index was down 2.80%[2]. For the year to date the Portfolio is up 7.50%[1] against the NZX50 Index's performance of 15.09%[2]. The recent performance is consistent with the long-term goal of growing investors' capital for future needs by investing in well-analysed, high-dividend-yielding shares.

Share insight: Metcash

A position added to the Portfolio in late July was the Australian grocery wholesaler Metcash (MTS). As the third largest player in the Australian grocery market with approximately 19% market share, MTS has a different business model than its two larger competitors, Woolworths and Coles. While these companies focus on large format supermarkets where they own the stores, MTS is a wholesaler and distributor to independently owned, often smaller format stores. MTS is much more than simply a supplier. Although it has no interest in owning retail businesses, it provides an extensive support system to its retailers. Aside from branding (principally IGA), it provides retail systems, store training, product and sector management, and store consultants. It also refurbishes, develops and leases stores to its franchise customers. The aim is to make the 'independent' retailers increasingly intertwined with and dependent upon MTS. In doing so they are likely to buy more and more of their product from the wholesaler.

It is this structure that makes MTS a very attractive investment. Its close association with its retailers protects its revenue and helps it maintain a very consistent earnings margin. The same structure offers significant growth potential. As the retailers currently do not source all of their product from MTS, there remains substantial scope to grow sales cheaply. Where retailers are already serviced by MTS distribution staff and vehicles, more product being sold into the stores is an almost nil additional cost.

A new revenue growth strategy that MTS has recently developed is 'IGA Fresh' – a full, fresh food range of fruit and vegetables, bakery, deli products and meat. The benefits for the company are twofold: it enables MTS to backfill fresh goods to customers who already provide them but source them elsewhere, and it puts them in a position to develop existing customers' own offerings to include a range of fresh goods.

Currently valued at A$4.56 per share, MTS recently announced its half-year results. The result demonstrated its resilience with same store revenue growing 6.4% and overall revenue up 9%. MTS's core distribution business generates an earnings margin of 4.7% on a projected A$7.3b of revenue. With significant revenue and margin growth potential, it easily justifies a sales multiple of 0.5x, a valuation of A$3.7b and a per share value after deducting all net debt of A$4.24. Add the smaller but still significant liquor and cash and carry businesses and a fair value for MTS over the medium term is closer to A$5.50, a premium of 21% to the current price.

[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. [2] Source: Bloomberg

Dividend Yield Portfolio

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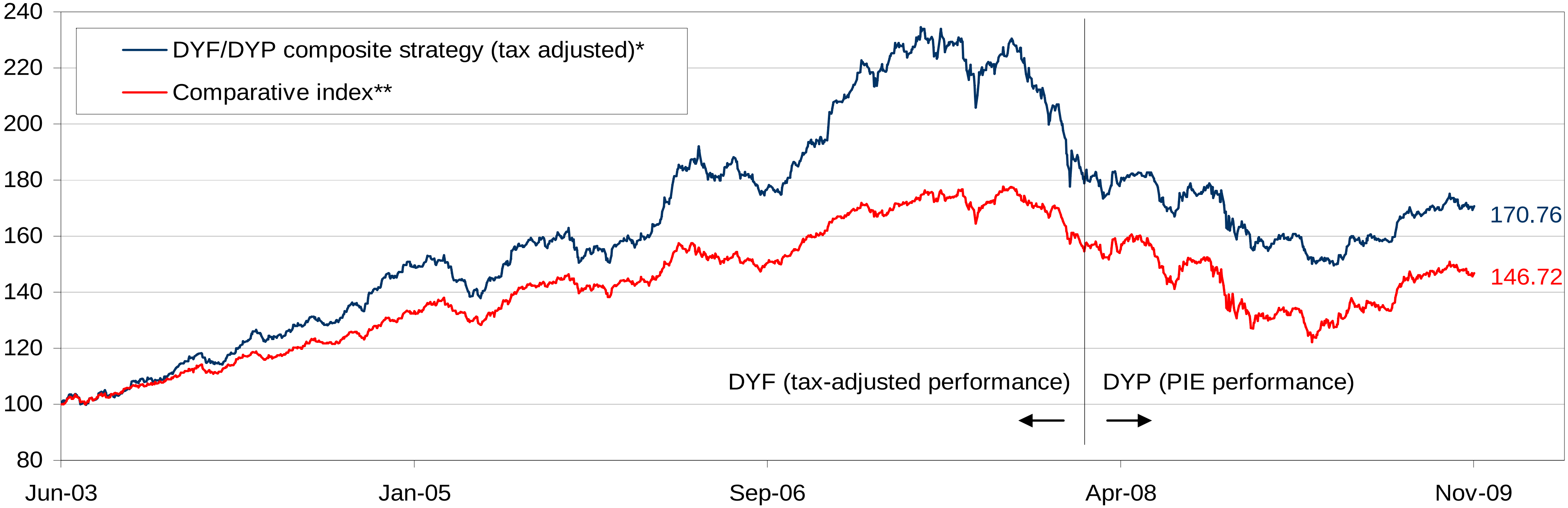
Tax-adjusted performance to 30 November 2009 for DYF/DYP composite strategy* (Part 1)

DYP performance attribution	1 month	3 month	6 month
Positive	Freightways	Metcash	Restaurant Brands
Neutral	Foster's	Corporate Express	Port of Tauranga
Negative	AMP NZ Office Trust	Contact Energy	Trustpower



Comparison	DYP 1 month	DYP 3 month	DYP 6 month	DYP 1 year
DYF/DYP (tax adjusted)*	-1.26%	1.74%	8.45%	8.19%
Comparative index**	-1.95%	0.48%	9.25%	11.39%

Comparison	Composite 2 year pa	Composite 5 year pa	Composite 7 year pa	Composite since inception pa	Composite maximum drawdown×
DYF/DYP (tax adjusted)*	-10.28%	3.28%	-	8.59%	-36.26%
Comparative index**	-7.21%	2.43%	-	6.08%	-31.29%

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

Tax-adjusted performance to 30 November 2009 for DYF/DYP composite strategy* (Part 2)

Tax-adjusted composite strategy

* Tax-adjusted composite strategy is stated after portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns. The composite covers Dividend Yield Fund (DYF) data from 6 June 2003 to 27 February 2008, and Dividend Yield Portfolio (DYP) data from 28 February 2008 to 30 November 2009.

DYF was established as an Australian Unit Trust (AUT). In calculating the tax-adjusted composite strategy, for DYF the return has been 'grossed up' at 33% (being the tax rate applicable to New Zealand Unit Trusts) to reflect the fact that the return was generally not taxable to an investor. 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 DYF and DYP to be represented in a substantially consistent manner.

The tax-adjusted composite strategy covers three different tax regimes, and accordingly three different calculation methods are applied over the course of the strategy. The three calculation periods are:

i) the period pre 31 March 2007 (being the period prior to the introduction of the FDR regime);

ii) the period from 1 April 2007 to 28 February 2008 (being the period that a New Zealand investor in DYF was subject to the FDR regime);

iii) the period post 1 March 2008 (establishment date of DYP under the PIE regime).

This calculation is undertaken for comparative purposes only, and should not be confused with the portfolio return generated from DYF or DYP.

More details on these calculations, together with the formulae used, are available on request from NZ Funds.

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

× Returns should be looked at in conjunction with the level of risk associated with an investment. For this reason, we have included the 'maximum drawdown' for both the strategy and the comparison. Maximum drawdown is a measure of volatility and represents the largest cumulative decline experienced during the reporting period.

Dividend Yield Portfolio

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Portfolio summary as at 30 November 2009

Portfolio summary

Number of securities	26
Yield[1]	6.8%
Weighted average market cap (share holdings)	$2.7b
Cash, capital notes & other	16.9%
Shares	83.1%
Total economic exposure	100.0%

Sector / Security	Country	Portfolio value	Proportion of portfolio	Market cap ($m)	P/E	P/B	Payout ratio	Yield[1]
Cash			**5.9%**					
Cash	New Zealand	$997,544	5.9%	-	-	-	-	2.8%
Cyclicals (Top five shown below)			**25.9%**					
Freightways	New Zealand	$1,260,512	7.5%	$485	15.7	3.0	67.0%	7.2%
The Warehouse	New Zealand	$1,164,986	6.9%	$1,260	14.1	3.8	75.0%	7.9%
Fletcher Building	New Zealand	$771,984	4.6%	$4,788	16.0	1.5	70.0%	5.2%
Restaurant Brands	New Zealand	$468,268	2.8%	$157	9.0	3.6	59.0%	9.1%
Mainfreight	New Zealand	$447,168	2.6%	$547	15.6	1.8	43.0%	4.9%
Non cyclicals (Top five shown below)			**57.2%**					
Goodman Fielder	New Zealand	$1,217,457	7.2%	$2,788	11.2	1.3	77.0%	7.3%
Trustpower	New Zealand	$1,187,029	7.0%	$2,296	18.5	1.6	114.0%	7.2%
Metcash	Australia	$879,724	5.2%	$4,470	14.5	2.9	60.0%	5.5%
Coca-Cola Amatil	Australia	$855,691	5.1%	$10,706	18.3	5.5	71.9%	3.9%
Foster's	Australia	$836,063	4.9%	$13,670	14.3	2.3	69.7%	5.1%
Capital notes & other (Top five shown below)			**11.0%**					
Kiwi Income Property MCN	New Zealand	$724,727	4.3%	-	-	-	-	8.1%
Sky City 8% 15 May 2010	New Zealand	$330,295	2.0%	-	-	-	-	9.8%
GPG Finance 9% 15 Dec 2013	New Zealand	$242,179	1.4%	-	-	-	-	9.5%
Fletcher Building 7.5% 15 Mar 2012	New Zealand	$213,502	1.3%	-	-	-	-	10.1%
Infratil 8.5% 15 Sep 2013	New Zealand	$176,761	1.0%	-	-	-	-	8.3%
Total economic exposure		**$16,899,720**	**100.0%**					

[1] The yield calculation represents an estimate of the yield on the Portfolio, calculated using 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. The yield is not the return on the Portfolio, nor is it a projection or forecast. Rather, it is an estimate of the pre-tax and fees income stream generated from investing in the Portfolio. The Portfolio return consists of yield and capital gains and losses (also calculated on a pre-tax and fees basis). Therefore, the Portfolio's return could be less than the Portfolio's yield. Details of the yield calculation are available on request from NZ Funds.
Note: Rounding may affect the subtotals and totals.

Dividend Yield Portfolio

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Complete portfolio as at 30 November 2009

Portfolio summary

Number of securities	26
Yield[1]	6.8%
Weighted average market cap (share holdings)	$2.7b
Cash, capital notes & other	16.9%
Shares	83.1%
Total economic exposure	100.0%

Sector / Security	Country	Portfolio value	Proportion of portfolio	Market cap ($m)	P/E	P/B	Payout ratio	Yield[1]
Cash			**5.9%**					
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Cyclicals			**25.9%**					
Freightways	New Zealand	$1,260,512	7.5%	$485	15.7	3.0	67.0%	7.2%
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Restaurant Brands	New Zealand	$468,268	2.8%	$157	9.0	3.6	59.0%	9.1%
Mainfreight	New Zealand	$447,168	2.6%	$547	15.6	1.8	43.0%	4.9%
Hallensteins Glassons	New Zealand	$264,453	1.6%	$191	13.3	3.3	94.0%	10.4%
Non cyclicals			**57.2%**					
Goodman Fielder	New Zealand	$1,217,457	7.2%	$2,788	11.2	1.3	77.0%	7.3%
Trustpower	New Zealand	$1,187,029	7.0%	$2,296	18.5	1.6	114.0%	7.2%
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Foster's	Australia	$836,063	4.9%	$13,670	14.3	2.3	69.7%	5.1%
Kiwi Income Property	New Zealand	$800,205	4.7%	$836	12.8	0.8	100.0%	10.8%
Corporate Express	Australia	$791,572	4.7%	$907	12.9	4.3	70.0%	5.1%
Fisher & Paykel Healthcare	New Zealand	$746,315	4.4%	$1,647	24.4	6.0	101.6%	5.5%
Goodman Property	New Zealand	$711,166	4.2%	$896	11.8	1.1	99.9%	11.3%
Port of Tauranga	New Zealand	$424,325	2.5%	$942	20.3	1.5	79.0%	5.7%
Sky City	New Zealand	$413,997	2.4%	$1,961	15.6	2.5	71.0%	6.4%
Contact Energy	New Zealand	$377,974	2.2%	$3,533	19.5	1.2	93.0%	6.5%
AMP New Zealand Office Trust	New Zealand	$367,997	2.2%	$758	12.5	0.8	98.3%	11.3%
UXC	Australia	$58,987	0.3%	$259	8.6	1.4	129.0%	5.3%
Capital notes & other			**11.0%**					
Kiwi Income Property MCN	New Zealand	$724,727	4.3%	-	-	-	-	8.1%
Sky City 8% 15 May 2010	New Zealand	$330,295	2.0%	-	-	-	-	9.8%
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Infratil 8.5% 15 Sep 2013	New Zealand	$176,761	1.0%	-	-	-	-	8.3%
TrustPower 8.5% 15 Mar 2014	New Zealand	$168,839	1.0%	-	-	-	-	7.4%
Total economic exposure		**$16,899,720**	**100.0%**					

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Notes

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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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