

Portfolio overview – 31 January 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.

Manager insight – 31 January 2009

The Dividend Yield Trust returned 1.24%¹ for the month of January. By contrast, the performance of the New Zealand equity market was 1.01%².

On the positive side, the Trust benefited from its exposure to Telecom, Goodman Fielder and DUET. The cash and capital note weightings have also performed well. The primary drag on performance was Freightways – which slumped during the month on concerns that New Zealand’s economic downturn would reduce earnings by more than expected. In our view, these concerns are overstated and, therefore, the Trust continues to hold Freightways.

We believe that the imminent reporting season in February, when companies update investors on how the past six months have been and give some guidance for the next six months, will be pivotal for the market. Given the rapidly deteriorating environment, it is almost certain that there will be some real winners and losers. Companies that can demonstrate resilience and confirm that they will continue to pay healthy dividends should carry on outperforming the market.

Share insight: PGG Wrightson

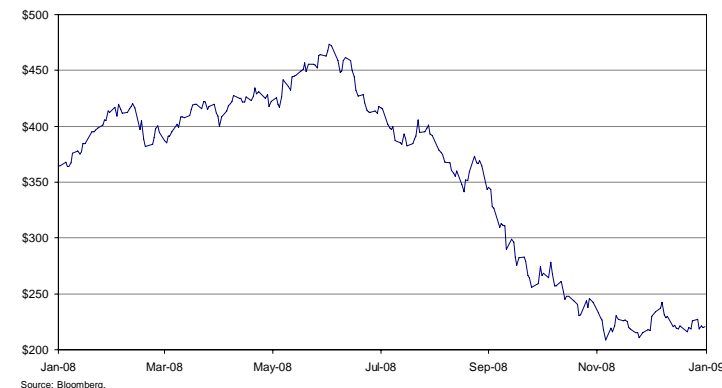
A key characteristic of the Trust is that it limits exposure to highly cyclical shares. While these securities may pay healthy dividends in good times, in tougher times their dividends are cut. A good example of this has been the aggressive selling of PGG Wrightson, which is down 58% since

August 2008. The sharp downturn in dairy and other agricultural prices will lower its profits. Similar downturns in the past have forced this company to cut its dividend to zero. The Dividend Yield Trust has not held PGG Wrightson.

PGG Wrightson share price



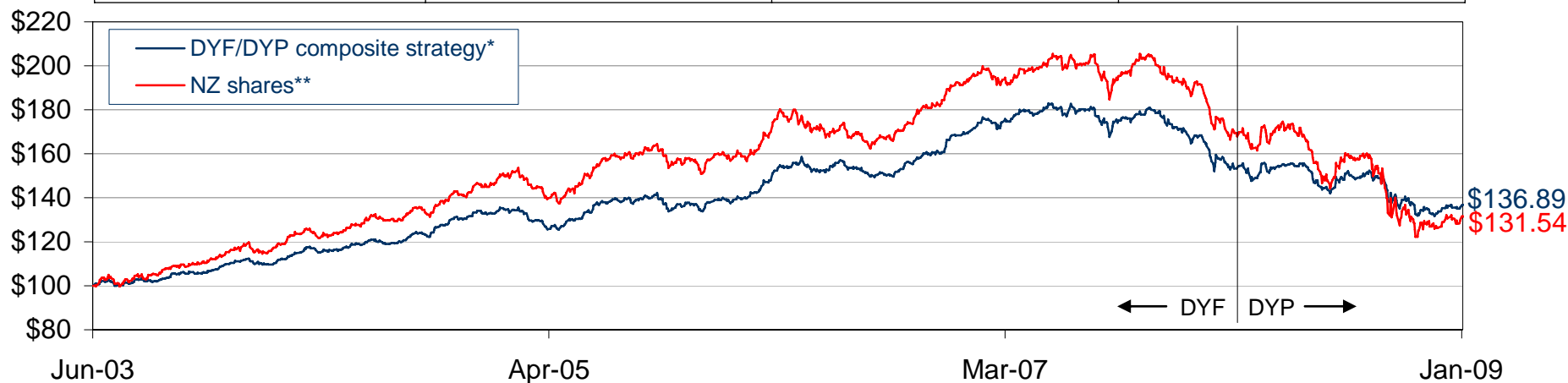
RJ/CRB Commodity Price Index



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.

Performance to 31 January 2009 for DYF/DYP composite strategy*

Performance attribution	One month	Three month	Six month
Positive	Cash holdings; Telecom	-	-
Neutral	n/a	-	-
Negative	Freightways	-	-



DYP return One-month	DYP return Three-month	DYP return Six-month	DYP return One-year	Composite strategy return Since inception pa
1.24%	-1.50%	-8.34%	-	5.70%

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 31 Jan 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.

Dividend Yield Portfolio

Portfolio summary as at 22 January 2009

Portfolio summary				
Number of securities	26			
Cash, Capital Notes & Other	38%			
Shares	62%			
Weighted average yield	9.4%			
Average market capitalisation of share holdings	\$1.6b			

Sector / Security	Proportion of portfolio	Market cap (\$m)	Yield*	Payout ratio
Cash	32%			
Cash		-		-
Cyclicals	13%			
Fisher & Paykel Appliances		\$377	11.8%	73%
Fletcher Building		\$2,925	11.9%	77%
Freightways		\$359	9.7%	76%
Methven		\$83	14.0%	80%
Nuplex		\$247	12.1%	76%
Restaurant Brands		\$63	13.9%	72%
Non Cyclicals	49%			
AMP NZ Office Trust		\$681	11.0%	98%
Contact Energy		\$3,875	5.7%	73%
Diversified Utility Energy		\$1,215	13.9%	153%
Fisher & Paykel Healthcare		\$1,610	5.5%	102%
Goodman Fielder		\$2,107	10.5%	92%
Goodman Property Trust		\$809	14.9%	100%
Kiwi Income Property		\$746	11.0%	99%
Lion Nathan		\$4,429	7.9%	78%
Port of Tauranga		\$832	6.1%	79%
Sky City		\$1,488	10.0%	94%
Telecom		\$4,671	10.2%	96%
Trustpower		\$2,271	6.3%	90%
Vector		\$2,082	9.3%	87%
Capital Notes & Other	5%			
Kiwi Income Property MCN		-	8.5%	-
Fletcher Building 7.5% 15 Mar 2012		-	9.1%	-
GPG Finance 9% 15 Dec 2013		-	10.0%	-
Infratil 8.5% 15 Sep 2013		-	9.5%	-
Sky City 8% 15 May 2010		-	8.3%	-
Sky Network Television 8.34% 16 Oct 2016		-	6.7%	-
TrustPower 8.5% 15 Mar 2014		-	8.0%	-
Total	100%			

*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.

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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