Dividend Yield Portfolio

NZFUNDS

Manager insight – 31 March 2009

The Dividend Yield Trust returned -0.69%[1] for the month of March. This lagged the performance of the New Zealand share market which was up 2.70%[2]. Since inception (28 February 2008), the Trust has returned -15.25%[1] versus the NZX50 Index which returned -27.63%[2].

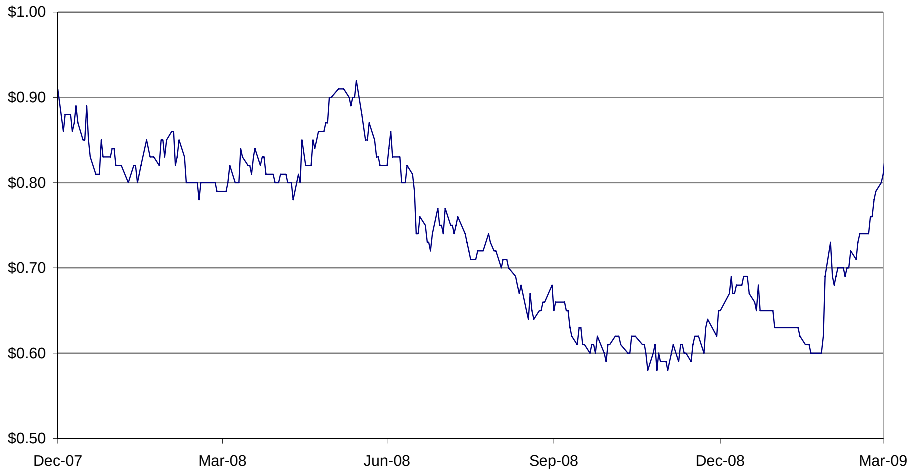
March was a month of extremes – 12 shares in the NZX50 Index rose over 10%, while six fell over 10%. The majority of the securities that rose sharply were companies that had been heavy underperformers in the run up to March – the Trust has limited exposure to these shares. The best example is Rakon – a company not held by the Trust – that rose 73% over the month but still remains 68% lower than this time last year. By comparison, the Trust had a quiet March due to it holding many of the shares in the middle that moved only modestly.

Share insight: Restaurant Brands

A company held by the Trust that did move more meaningfully was Restaurant Brands, which was up 17%. During February, it had reported that sales had held up well and that it was able to modestly increase guidance for its full year earnings. The main driver behind this upgrade was that its biggest restaurant chain, KFC, had picked up extra sales through its discount positioning in the takeaway and dine-out market. With a strong balance sheet, sustainable profits and a dividend yield of 12%, this company is very much on investors' menu.

Restaurant Brands has been a company that has often disappointed the market in the past however it needs to be borne in mind that it is actually quite profitable. Its operating earnings at the most recent result (the half year to early September 2008) were around $10m for 6 months. Doubling that to get an estimated full year earnings before interest and tax of $20m means that the enterprise value at 31 March of approximately $113m was less than 6x EBIT. This is a low multiple and it appears the stock is still being penalised for its history of disappointment.

Restaurant Brands share price



Source: Bloomberg.

[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.

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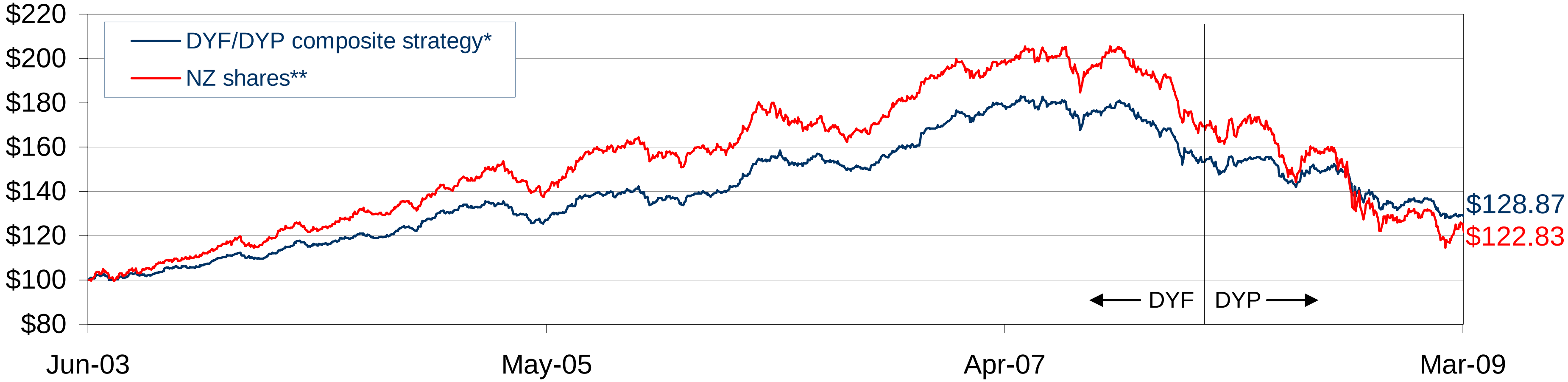
Performance to 31 March 2009 for DYF/DYP composite strategy*

Performance attribution	One month	Three month	Six month
Positive	Fletcher Building; Vector	-	-
Neutral	n/a	-	-
Negative	Cash holdings; Infratil	-	-



DYP return One-month	DYP return Three-month	DYP return Six-month	DYP return One-year
-0.69%	-4.69%	-12.10%	-14.94%

Composite strategy return Since inception pa
4.45%

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 Mar 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 31 March 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

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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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