

MANAGER INSIGHT – 31 MARCH 2010

The Portfolio returned 0.87%¹ in March, while the NZX50 Index returned 3.50%².

Share insight: Goodman Fielder

Goodman Fielder produces some of the most familiar products in New Zealand and Australian kitchens. The company's brands include Meadow Fresh, Meadowlea, Praise, Edmonds Baking Powder and Vogel's. With a history dating back to the early part of the 20th century, Goodman Fielder products are proven and successful. But what about the company as an investment?

On the face of it, the company has some highly attractive characteristics. It has a large stable of widely recognised and admired brands and has excellent positions in all of its major markets (its products are either first or second in almost all of their markets). The company also has sufficient scale to provide cost advantages in manufacturing. Most importantly, Goodman Fielder has the power and size to be able to command significant supermarket shelf and fridge space which gives it the flexibility to introduce new products on a regular basis.

However, the company's market is less benign than it at first appears because while it is strongly positioned in relation to its competitors, it faces significant competition from its customers. The purchasing power of supermarket chains is enormous and has been exacerbated by their move into selling their 'own brand' product. This pseudo manufacturing puts suppliers, like Goodman Fielder, in a difficult position. They can either

contract to supply the 'own brand' product and thereby ensure a lower margin earnings stream (because the products are always cheaper) or allow a competitor to provide the product. In either case, their existing branded product is undermined.

The rise of 'own brands' has been more significant in some product lines than others – most painful for Goodman Fielder has been the damage to their milk sales. In essence, consumers have decided that milk is the same regardless of the label and have opted to purchase 'own brands'. Happily for Goodman Fielder, many of their other brands have enough power to limit the ability of supermarkets to squeeze into their space.

The overriding investment decision with regard to Goodman Fielder entails deciding if the current price strikes the right balance between the company's strengths and the industry's weaknesses. Currently priced at A\$1.48 with debt of around A\$1 billion, Goodman Fielder has an enterprise value of A\$3.03 billion. Given that the company is expected to earn operating profit in excess of A\$350 million for its 2010 fiscal year, it is currently valued at an enterprise value/operating profit multiple of 8.6x. At that price, Goodman Fielder is getting little credit for the defensive qualities of its brand portfolio and the cost reductions it has made over the course of the recession which have seen margins pick up. If margins move back towards historical averages, the price could increase above A\$2.00, a premium to current levels of 40%. Add in a 7% cash dividend yield and a sound financial structure, and Goodman Fielder is clearly a business that deserves a spot in the investment pantry.

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.

TAX-ADJUSTED PERFORMANCE TO 31 MARCH 2010 FOR DIVIDEND YIELD COMPOSITE STRATEGY* (PART 1)

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



COMPARISON	DYP 1 MONTH	DYP 3 MONTH	DYP 6 MONTH	DYP 1 YEAR	COMPOSITE 2 YEAR PA	COMPOSITE 5 YEAR PA	COMPOSITE 7 YEAR PA	COMPOSITE SINCE INCEPTION ¹	COMPOSITE MAXIMUM DRAWDOWN ^x
Dividend Yield Composite Strategy*	0.87%	-2.17%	-0.21%	12.26%	-2.28%	3.36%	10.74%	364.69%	-36.26%
Comparative index**	2.50%	0.92%	2.58%	18.28%	-0.73%	2.76%	7.09%	257.69%	-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 31 MARCH 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 5 June 2003, the Dividend Yield Fund (DYF) from 6 June 2003 to 27 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 5 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 27 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 31 MARCH 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 31 MARCH 2010

PORTFOLIO SUMMARY

Number of securities	27
Yield ¹	6.8%
Weighted average market cap (share holdings)	\$2.3b
Cash, capital notes & other	14%
Shares	86%
Total economic exposure	100%

SECTOR / SECURITY	COUNTRY	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	MARKET CAP (NZ\$M)	PRICE/EARNINGS	PRICE/BOOK	PAYOUT RATIO	YIELD
CASH			7.5%					
Bank deposits / Bank bills	New Zealand	\$1,213,020	7.5%	n/a	n/a	n/a	n/a	2.8%
CYCLICALS			29.8%					
Freightways	New Zealand	\$1,166,921	7.2%	\$488	16.1	3.0	78.0%	6.8%
The Warehouse	New Zealand	\$1,142,793	7.0%	\$1,183	13.9	3.6	79.0%	8.3%
Fletcher Building	New Zealand	\$660,852	4.1%	\$5,152	16.8	1.7	58.0%	4.8%
Restaurant Brands	New Zealand	\$642,813	4.0%	\$204	10.1	4.4	56.0%	6.0%
Mainfreight	New Zealand	\$454,607	2.8%	\$640	16.5	2.1	51.0%	4.1%
Hallenstein Glasson	New Zealand	\$385,183	2.4%	\$203	11.8	3.4	95.0%	9.8%
Air New Zealand	New Zealand	\$375,643	2.3%	\$1,495	15.4	0.9	60.0%	7.1%
NON CYCLICALS			56.6%					
Trustpower	New Zealand	\$1,168,069	7.2%	\$2,296	18.8	1.6	92.0%	7.5%
Goodman Fielder	New Zealand	\$1,138,080	7.0%	\$2,642	10.7	1.2	80.0%	7.0%
Fisher & Paykel Healthcare	New Zealand	\$781,405	4.8%	\$1,701	25.0	6.1	95.0%	5.4%
Kiwi Income Property	New Zealand	\$770,825	4.8%	\$807	13.3	0.8	97.0%	10.7%
Goodman Property	New Zealand	\$752,899	4.6%	\$867	11.2	1.0	93.0%	12.1%
Corporate Express	Australia	\$667,329	4.1%	\$1,240	15.3	4.2	66.0%	3.6%
Metcash	Australia	\$494,229	3.0%	\$4,225	13.3	2.7	54.0%	5.1%
Cocal Cola	Australia	\$475,000	2.9%	\$11,133	17.1	4.9	73.0%	3.5%
Foster's	Australia	\$474,860	2.9%	\$13,765	15.2	2.7	70.0%	4.4%
Spotless	New Zealand	\$466,168	2.9%	\$988	13.3	1.6	79.0%	4.0%
Contact	Australia	\$409,577	2.5%	\$3,932	23.1	1.3	96.0%	6.2%
Port of Tauranga	New Zealand	\$395,311	2.4%	\$935	20.0	1.4	81.0%	5.7%
AMP New Zealand Office Trust	New Zealand	\$360,316	2.2%	\$758	12.1	0.8	96.0%	11.3%
STW Communications	New Zealand	\$255,647	1.6%	\$401	8.2	0.7	32.0%	4.8%
Sigma Pharmaceutical	Australia	\$236,676	1.5%	\$711	6.5	0.4	72.0%	5.2%
Photon Group	Australia	\$162,073	1.0%	\$266	5.9	0.5	46.0%	7.2%
UXC	Australia	\$153,388	0.9%	\$173	6.8	0.7	57.0%	5.7%
Energy Developments Ltd	Australia	\$8,659	0.1%	\$509	11.0	1.3	59.6%	2.8%
CAPITAL NOTES & OTHER			6.2%					
Kiwi Income Property MCNs	New Zealand	\$729,888	4.5%	n/a	n/a	n/a	n/a	9.0%
Sky City Capital Notes	New Zealand	\$267,914	1.7%	n/a	n/a	n/a	n/a	8.0%
TOTAL ECONOMIC EXPOSURE²		\$16,210,145	100.0%					

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.

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.

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