

Portfolio overview – 31 July 2009

Needs category objective

- Investment that aims to grow capital and in doing so provide for the investor's future needs.

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 ensure 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 franchises from more speculative or highly leveraged enterprises. 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. The 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 stock markets are screened for high yielding stocks. The resulting stocks are then subjected to detailed fundamental security analysis. The manager seeks to invest in shares of high quality, sustainable franchise where the intrinsic value is substantially higher than the current market price. As at 30 June 2009 the yield on the Portfolio was 8.0%.

Manager insight – 31 July 2009

The Dividend Yield Portfolio returned 5.05%¹ in July, while the NZX50 Index was up 7.87%².

Share insight: The Warehouse

The Warehouse is the place, of course, where everyone gets a bargain. And at the moment that includes buyers of the company's shares.

This hasn't always been the case – in fact for a number of years purchasers of The Warehouse have been sorely disappointed. Indeed, if you'd bought shares at the company's peak in June 2002 you'd have paid \$7.44 – the company's share price on 31 July 2009 was \$3.99. And in this case there was sadly no 30-day money back guarantee!

For most of those years The Warehouse was not the kind of business that the Dividend Yield Portfolio's investment style was suited to. It was very focused on growing its earnings and generally paid a low dividend because it wanted to reinvest for growth. Throughout the 1990s this strategy was effective and it was able to achieve strong earnings growth by continually building new stores. All good things however come to an end and The Warehouse eventually got to a point where there were no towns in New Zealand left in which to build more stores. Then the company was faced with a difficult choice – change into a company focused on creating as much as value as possible from its massively powerful franchise or try to continue growing.

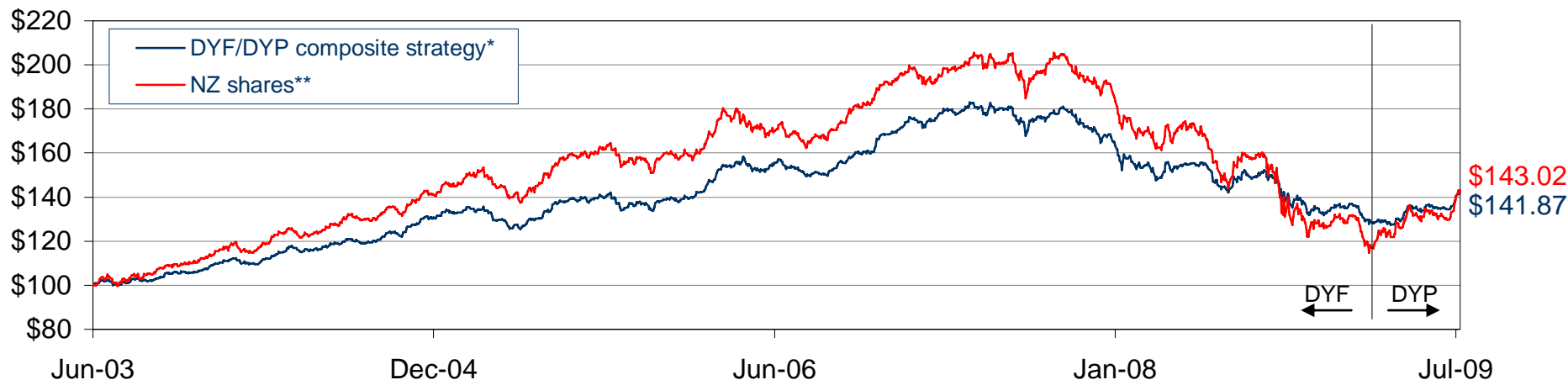
Unfortunately, it chose the latter option and embarked on a disastrously expensive foray into Australia and then compounded its error by attempting to become a supermarket. Further confusing the situation was Sir Stephen Tindall's attempt to retake full control of the business and the various stakes taken by Foodstuffs and Woolworths. However, out of these wrong turns and failed takeovers has emerged a business that finally appears to be focusing on its core skill – earning great margins on large-volume sales of general merchandise. The Warehouse dominates the general merchandise market. It has: a fantastic brand that is understood by consumers to be the best place to go to for value; a truly nationwide network of stores; unmatched merchandising skills; and the massive scale in purchasing power and distribution to structurally be the lowest-cost retailer. No longer valued as a growth company, it can focus on incrementally increasing its earnings through managing costs and inventory, improving store fitouts, targeted development and increasing its product range – as it has done with apparel over recent years.

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.

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

Return attribution	One month	Three month	Six month
Positive	Fisher & Paykel Healthcare	Methven	Restaurant Brands
Neutral	Freightways	Goodman Fielder	Port of Tauranga
Negative	TrustPower	Telecom	Kiwi Income Property



DYP return One-month	DYP return Three-month	DYP return Six-month	DYP return One-year	Composite strategy return Since inception pa
5.05%	6.60%	3.64%	-5.00%	5.85%

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 July 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 31 July 2009

Portfolio summary

Number of securities	27
Weighted average yield	7.1%
Average market capitalisation (share holdings)	\$2.6b
Cash, capital notes & other	26%
Shares	74%
Total economic exposure	100%

Sector / Security	Portfolio value	Proportion of portfolio	Market cap (\$m)	Yield / Interest rate*	Payout ratio
Cash	\$2,737,634	16.0%	-	2.8%	-
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Cyclicals (Top five shown below)	\$3,079,838	18.0%	\$1,217	7.6%	65.4%
Freightways	\$1,026,613	6.0%	\$479	7.3%	67.0%
The Warehouse	\$855,511	5.0%	\$1,239	7.7%	75.0%
Fletcher Building	\$427,755	2.5%	\$4,582	7.7%	70.0%
Mainfreight	\$427,755	2.5%	\$473	6.0%	43.0%
Restaurant Brands	\$342,204	2.0%	\$98	10.2%	59.0%
Non Cyclicals (Top five shown below)	\$9,581,718	56.0%	\$3,501	7.9%	96.9%
Fisher & Paykel Healthcare	\$855,511	5.0%	\$1,732	6.1%	101.6%
Infratil	\$855,511	5.0%	\$1,046	5.1%	160.0%
Kiwi Income Property	\$855,511	5.0%	\$803	11.4%	100.0%
Telecom	\$769,959	4.5%	\$5,344	8.8%	96.0%
Trustpower	\$769,959	4.5%	\$2,461	6.8%	114.0%
Capital Notes & Other (Top five shown below)	\$1,705,651	10.0%	-	8.9%	-
Kiwi Income Property MCN	\$684,408	4.0%	-	8.6%	-
Sky City 8% 15 May 2010	\$342,204	2.0%	-	8.5%	-
Fletcher Building 7.5% 15 Mar 2012	\$171,102	1.0%	-	8.9%	-
GPG Finance 9% 15 Dec 2013	\$171,102	1.0%	-	10.9%	-
TrustPower 8.5% 15 Mar 2014	\$171,102	1.0%	-	8.0%	-
Total economic exposure	\$17,110,211	100.0%		7.1%	

*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.

**The share hedge reduces the investment in shares and generates cash like returns when the Portfolio is hedged. Note: Rounding may affect the subtotals and totals.

Dividend Yield Portfolio

Complete portfolio as at 31 July 2009

Portfolio summary					
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Mainfreight	\$427,755	2.5%	\$473	6.0%	43.0%
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Telecom	\$769,959	4.5%	\$5,344	8.8%	96.0%
Trustpower	\$769,959	4.5%	\$2,461	6.8%	114.0%
Coca Cola Amatil	\$684,408	4.0%	\$8,705	4.9%	71.9%
Foster's Group	\$684,408	4.0%	\$13,144	5.3%	69.7%
Goodman Property Trust	\$684,408	4.0%	\$845	14.5%	99.9%
Vector	\$684,408	4.0%	\$2,011	9.4%	82.0%
AMP NZ Office Trust	\$427,755	2.5%	\$768	12.5%	98.3%
Auckland International Airport	\$427,755	2.5%	\$2,119	7.4%	100.0%
Contact Energy	\$427,755	2.5%	\$3,834	7.0%	93.0%
Goodman Fielder	\$427,755	2.5%	\$2,352	7.4%	77.0%
Lion Nathan	\$342,204	2.0%	\$7,929	4.0%	79.0%
Port of Tauranga	\$342,204	2.0%	\$856	5.9%	79.0%
Sky City	\$342,204	2.0%	\$1,984	8.1%	71.0%
Capital Notes & Other		10.0%			
Kiwi Income Property MCN	\$684,408	4.0%	-	8.6%	-
Sky City 8% 15 May 2010	\$342,204	2.0%	-	8.5%	-
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TrustPower 8.5% 15 Mar 2014	\$171,102	1.0%	-	8.0%	-
Infratil 8.5% 15 Sep 2013	\$165,732	1.0%	-	10.0%	-
Total economic exposure	\$17,110,211	100.0%		7.1%	

*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.

**The share hedge reduces the investment in shares and generates cash like returns when the Portfolio is hedged. 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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