

## Manager insight – 31 August 2009

The Portfolio returned 0.70%<sup>1</sup> in August, while the NZX50 Index was up 2.71%<sup>2</sup>. For the year to date the Portfolio is up 5.66%<sup>1</sup> against the NZX50 Index's performance of 14.08%<sup>2</sup>. 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: Auckland International Airport

One of the ways your manager looks to add value is by populating the portfolio with shares that are not just great companies, but are great value. Auckland International Airport (AIA) is an example of a business with some fantastic attributes that is just too expensive to offer great value. As the gateway to New Zealand for more than 80% of international travellers, it sits in a wonderful position. Although the part of its business that is solely focused on moving people and goods is subject to government regulation, the airport can operate its car parking, property development and, most importantly, its highly lucrative duty-free operations with a free hand. In many ways the airport is really just a large shopping mall with expensive car parking! Yet just because the airport is in a great position doesn't mean it is a great buy. Its monopolistic attributes are widely recognised and investors pay more for airports than for other types of businesses in more competitive markets.

So how do we know when we are paying too much? One way is to compare it to its global peers. As airports around the world perform the same function and are frequently in similar regulatory positions,

investors globally compare them to each other. As such, capital flows are global – it wasn't domestic interest that saw AIA bid up to \$3.50 in 2007 but Dubai and Canadian airport investors. And compared to a broad range of its peers, AIA looks expensive. The business is valued at nearly 12x next year's earnings before interest, tax, depreciation and amortisation (EBITDA), a multiple only exceeded globally by three fast-growing Chinese airports. Your manager doesn't believe AIA is a bad business. Nor does it see a huge price fall as particularly likely. Indeed, global air travel will recover and AIA's profits will at some point benefit.

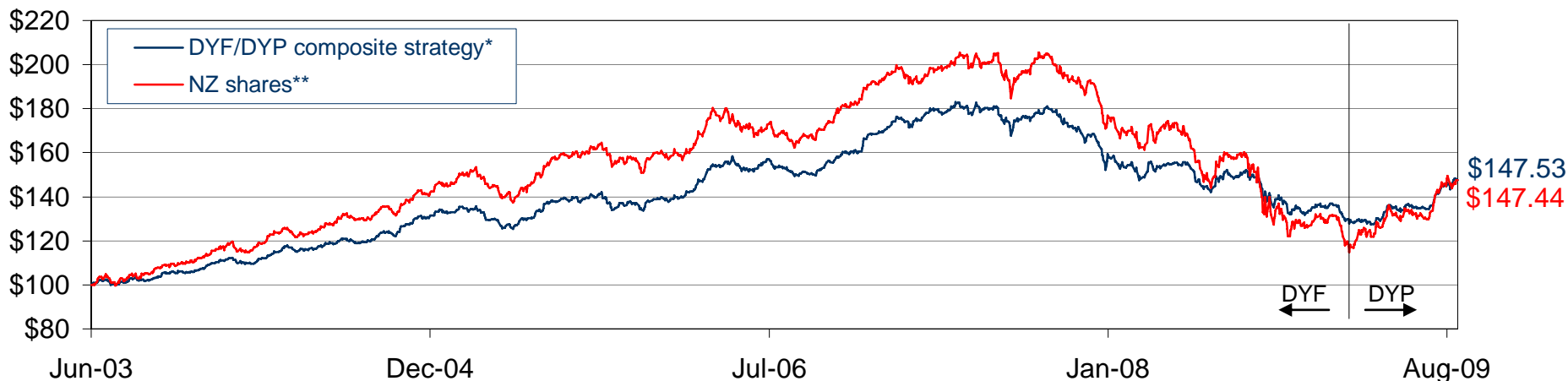
Your manager's view though is that AIA is currently too expensive to enjoy rapid price appreciation even if that happens. Consequently, the Portfolio is tilted away from AIA and towards shares with a greater value opportunity.

Name	EV/EBITDA	EV/Sales	EBIT Margin	Debt/EBITDA
Shanghai Airport	16.2x	8.9x	32.1%	1.7x
Shenzhen Airport	12.8x	7.1x	45.8%	-1.3x
Beijing Airport	12.3x	5.7x	14.4%	3.4x
<b>Auckland Airport</b>	<b>11.6x</b>	<b>8.8x</b>	<b>61.7%</b>	<b>3.8x</b>
Ferrovial	11.2x	2.3x	11.6%	9.1x
Airports of Paris	10.3x	3.4x	18.6%	3.2x
Airports of Thailand	9.3x	5.0x	15.8%	4.5x
Gemina	9.1x	3.8x	19.2%	5.5x
Fraport	8.3x	2.3x	14.6%	2.0x
Copenhagen Airport	8.3x	4.3x	37.1%	2.1x
Hainan Airport	8.3x	5.1x	48.6%	-2.0x
Guangzhou Airport	8.3x	3.5x	26.7%	0.4x
Mexican Airports	7.8x	4.8x	41.7%	-0.5x
Zurich Airport	7.7x	3.7x	24.8%	3.0x
Vienna Airport	7.6x	2.5x	18.9%	3.6x
Venice Airport	6.6x	1.1x	8.5%	1.2x
Malaysian Airport	5.3x	2.1x	29.8%	-0.8x

<sup>1</sup> 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. <sup>2</sup> Source: Bloomberg.

## Performance to 31 August 2009 for DYF/DYP composite strategy\*

Return attribution	One month	Three month	Six month
Positive	Mainfreight	Goodman Fielder	Restaurant Brands
Neutral	Fisher & Paykel Healthcare	Sky City	Port of Tauranga
Negative	Freightways	TrustPower	Vector



DYP return One-month	DYP return Three-month	DYP return Six-month	DYP return One-year	Composite strategy return Since inception pa
0.70%	6.60%	10.09%	-4.50%	6.43%

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 Aug 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 August 2009

### Portfolio summary

Number of securities	28
Yield*	6.9%
Average market capitalisation (share holdings)	\$2,893
Cash, capital notes & other	26%
Shares	74%
Total economic exposure	100%

Sector / Security	Portfolio value	Proportion of portfolio	Market cap (\$m)	Yield*	Payout ratio
<b>Cash</b>		<b>15.0%</b>			
Cash	\$2,566,532	15.0%	-	2.8%	-
<b>Cyclicals (Top five shown below)</b>		<b>17.0%</b>			
Freightways	\$1,197,715	7.0%	\$439	7.9%	67.0%
The Warehouse	\$427,755	2.5%	\$1,229	7.7%	75.0%
Fletcher Building	\$427,755	2.5%	\$4,600	5.8%	70.0%
Mainfreight	\$427,755	2.5%	\$495	6.0%	43.0%
Restaurant Brands	\$427,755	2.5%	\$99	10.4%	59.0%
<b>Non Cyclicals (Top five shown below)</b>		<b>57.0%</b>			
Fisher & Paykel Healthcare	\$769,959	4.5%	\$1,703	5.7%	101.6%
Infratil	\$769,959	4.5%	\$966	5.5%	160.0%
Kiwi Income Property	\$769,959	4.5%	\$811	10.6%	100.0%
Telecom	\$769,959	4.5%	\$5,009	12.7%	96.0%
Trustpower	\$769,959	4.5%	\$2,389	6.5%	114.0%
<b>Capital Notes &amp; Other (Top five shown below)</b>		<b>11.0%</b>			
Kiwi Income Property MCN	\$684,408	4.0%	-	8.6%	-
Sky City 8% 15 May 2010	\$342,204	2.0%	-	7.9%	-
Fletcher Building 7.5% 15 Mar 2012	\$256,653	1.5%	-	8.0%	-
GPG Finance 9% 15 Dec 2013	\$256,653	1.5%	-	9.9%	-
TrustPower 8.5% 15 Mar 2014	\$171,102	1.0%	-	7.7%	-
<b>Total economic exposure</b>	<b>\$17,110,211</b>	<b>100.0%</b>		<b>6.9%</b>	

\*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. The yield is not the return on the Portfolio. 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. Therefore, the Portfolio's return could be less than the Portfolio's yield. The yield is not a projection or forecast of future performance or of future income streams. Past yields are not necessarily an indication of future yields. Details of the yield calculation are available on request from NZ Funds. Where applicable, the security's yield reflects the benefit derived from imputation credits received. Note: Rounding may affect the subtotals and totals.

# Dividend Yield Portfolio

Complete portfolio as at 31 August 2009

## Portfolio summary

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Telecom	\$769,959	4.5%	\$5,009	12.7%	96.0%
Trustpower	\$769,959	4.5%	\$2,389	6.5%	114.0%
Coca Cola Amatil	\$769,959	4.5%	\$9,141	4.3%	71.9%
Corporate Express	\$427,755	2.5%	\$840	6.1%	70.0%
Foster's Group	\$769,959	4.5%	\$12,490	5.4%	69.7%
Metcash	\$769,959	4.5%	\$4,067	5.7%	60.0%
Goodman Property Trust	\$342,204	2.0%	\$820	12.2%	99.9%
Vector	\$769,959	4.5%	\$2,011	10.0%	82.0%
AMP NZ Office Trust	\$342,204	2.0%	\$808	10.6%	98.3%
Contact Energy	\$342,204	2.0%	\$3,629	6.2%	93.0%
Goodman Fielder	\$342,204	2.0%	\$1,655	7.5%	77.0%
Lion Nathan	\$342,204	2.0%	\$7,713	4.1%	79.0%
Port of Tauranga	\$342,204	2.0%	\$873	6.2%	79.0%
Sky City	\$342,204	2.0%	\$1,864	6.7%	71.0%
			\$2,893		
<b>Capital Notes &amp; Other</b>		<b>11.0%</b>			
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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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