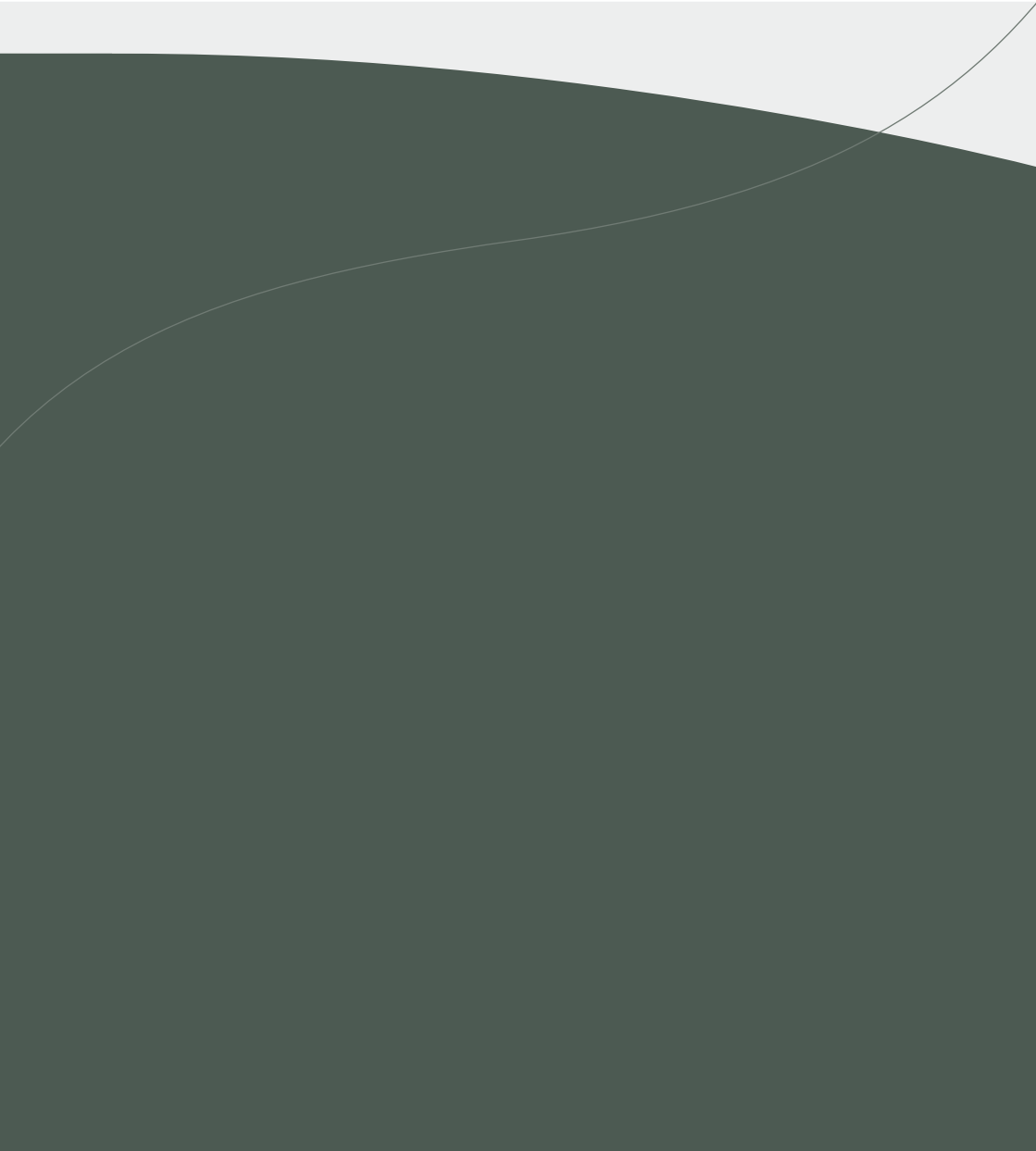


**NZFUNDS**

annual review  
FINANCIAL STATEMENTS 2011





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# Annual Review

DEAR INVESTOR,

WELCOME TO THE GLOBAL INVESTMENT SERVICE ANNUAL REVIEW AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2011. NZ FUNDS MANAGEMENT IS THE MANAGER OF THE GLOBAL INVESTMENT SERVICE. THE VISION OF NZ FUNDS MANAGEMENT'S FOUNDING PRINCIPALS WAS TO BUILD A NEW ZEALAND OWNED COMPANY ENTRUSTED TO MANAGE THE RETIREMENT WEALTH OF NEW ZEALANDERS. AFTER 23 YEARS, THIS REMAINS OUR GUIDING AIM. OVER THE LAST YEAR WE ACHIEVED A NUMBER OF IMPORTANT MILESTONES TOWARD THAT AIM.

*NZ Funds Management's KiwiSaver Scheme was launched. NZ Funds KiwiSaver Scheme has at its core a unique LifeCycle asset allocation model, designed to specifically take each clients' age and future contributions into account. Shortly after its launch, it became the first qualitatively reviewed KiwiSaver Scheme in New Zealand.*

The review was conducted by Lonsec, a leading Australasian investment manager research organisation. Lonsec's review process involved a thorough examination and assessment of NZ Funds Management's culture, the depth of its investment research approach and the strength of its corporate governance and compliance processes. It also assessed the ability of the NZ Funds Management Portfolios reviewed to achieve their objectives and, where applicable, outperform peers over an appropriate investment timeframe.

We were very pleased with the outcome of this review process. The positive feedback we received regarding the strength of our risk management culture and our research approach was of particular note.

From a research perspective we seek to implement a process that is diligent and thorough with a clear consideration of the needs of the end investor. Furthermore we seek to achieve a competitive advantage over our peers through our people, process and product design. The work undertaken by Lonsec highlighted our achievements to date in these areas.

Also of note during the year was the launch of NZ Funds Private Wealth, with offices in Auckland and Wellington, and the establishment of NZ Funds Institutional.

In respect of NZ Funds Institutional we have, over the last two decades, managed investments for a small number of charitable funds, generally for entities with which we have some personal or corporate connection. We have made the decision to expand the availability of these institutional services to enable a select group of New Zealand charitable and/or institutional entities to invest alongside us and benefit from the economies

of scale, capability and resource which come from managing a much larger pool of capital.

We continue to have one historic exposure which no longer meets our long-term investment criteria. This exposure is the assets held by certain Portfolios in the Private Loan Trust, which lends to Fidelity Ltd. The carrying value of these Portfolio's investments in the Private Loan Trust is a very small proportion of each Portfolio's assets. We continue to oversee this investment without charge to the Portfolios but with the utmost focus, and will continue to do so for as long as is required to maximise the outcome for clients.

Following several years of unusually high turbulence it is very pleasing to note that over the last year almost 90% of clients chose to stick with their long-term retirement portfolios. Further, since the beginning of the year, we have begun working with a number of new authorised financial advisers and, as a result, a significant number of new individuals, families and trusts.

This year our commentary focuses on the impacts of inflation on those accumulating wealth in preparation for retirement and those relying on their wealth to generate the income they need in retirement.

How New Zealanders invest their retirement capital is a critical determinant of the long-term prosperity of our country. Trying to positively influence the investing decisions of New Zealanders is what shapes the roles we at NZ Funds Management, and the authorised financial advisers we work with, play in our community.

We look forward to reporting to you again next year.

Yours sincerely,



Richard James  
**PRINCIPAL**  
**CHIEF EXECUTIVE OFFICER**



Michael Lang  
**PRINCIPAL**  
**CHIEF INVESTMENT OFFICER**

### WHY RISKY IS THE NEW SAFE

With New Zealand's annual inflation rate hitting a 21-year high in June, New Zealanders are justifiably concerned. Rising food and fuel prices in particular have noticeably impacted the cost of living.

But, while much has been written about inflation in recent times, there is little evidence of affirmative action being taken by those who stand to lose the most: New Zealand's baby boomers. When Kathleen Casey-Kirschling filed for Social Security in America at the beginning of 2008, she became the first official American baby boomer to retire, signalling a key landmark in personal retirement preparation across the developed world.

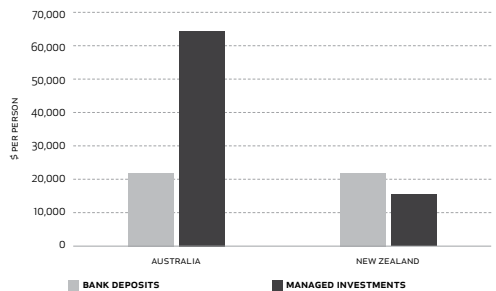
Somewhat fortuitously, New Zealand's baby boomers are for the most part in reasonable financial health - in overall asset terms at least. Their wealth is largely the product of the multi-decade rise of domestic house prices. Eating one's home is however a difficult proposition - practically, emotionally, and financially.

New Zealanders have managed to accumulate wealth despite decades of Government inaction on retirement savings. The lost opportunity as a nation is perhaps best epitomised by the 1993 Todd Task Force, established to consider the issue of retirement saving; they concluded little needed doing other than "enhanced voluntary savings". This is around the time that Australia introduced compulsory superannuation.

Consequently, baby boomers now find themselves in a conundrum. Most have enjoyed the extraordinary rise in house prices which saw New Zealand house prices grow from a multiple of 4.3 times the average income in 1992, to a staggering 9.1 times by 2007. But most are also highly conscious that they are unlikely to see prices rise by a similar magnitude over the next 15 years (New Zealand property prices are 18% overvalued according to The Economist 7th July 2011).

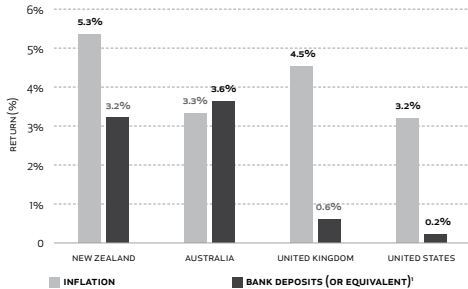
So, as our baby boomers save for retirement and/or downsize their homes to free up retirement capital, the question beckons... how should one invest their retirement savings to protect their wealth and future income from the impacts of inflation?

Up until now, the predominant answer has been bank deposits. New Zealand households hold almost \$100 billion in bank deposits, equal to \$22,000 for every man, woman and child. By comparison, Australians hold a similar amount of bank deposits per head of population. But, as a consequence of almost 20 years of compulsory superannuation, the average citizen of the "lucky country" holds a further \$64,000 in managed investments. This is more than four times the New Zealand current situation where the average person holds just \$15,500 of managed investments.



SOURCE: STATISTICS NZ, AUSTRALIAN BUREAU OF STATISTICS, RESERVE BANK OF NZ, AUSTRALIAN PRUDENTIAL REGULATORY AUTHORITY

Globally, as inflation gathers pace, investors in bank deposits are being forced to grapple with a new challenge: interest rates below the rate of inflation (often referred to as "negative real interest rates"). In the first half of this year the Reserve Bank of New Zealand continued to hold wholesale interest rates at 2.5% despite annual inflation hitting 5.3%. This is a phenomenon that has not occurred in New Zealand for more than two decades. The negative real interest rates which result are the most insidious force undermining retirement savings today.



SOURCE: BLOOMBERG, NZ FUNDS MANAGEMENT CALCULATIONS.

Please note:

- 1) Bank deposit returns are estimates only based on 3-month bank deposits in New Zealand and 3-month cash returns in Australia, the United Kingdom and the United States. Returns are shown after tax, assuming for comparative purposes only, a PIE tax rate of 28%.

Only a modest negative real return can cause significant damage to a long-term investor's wealth. As the graph above shows, bank deposits in New Zealand currently yield around 3.2% (after tax). With inflation running at 5.3% that produces a real return of -2.1% per annum. Assuming that negative real rate of return remained constant over twenty years, \$30,000 of retirement spending dollars produced through bank deposits would buy just \$19,623 worth of goods at the end of that period. Bank deposit holders need to consider how hard it would be to live on less than two thirds of what they do today – which aspects of their standard of living would they cut?

Bank deposits are therefore not riskless investments. They are in fact quite susceptible to inflation risks. Somewhat perversely they are also part of the reason why house prices have kept rising. Bank deposits have been, and continue to be, an important means by which banks fund growth in home mortgages. As we have seen in the past, the availability of easy credit via mortgage lending has been an important factor fuelling house price increases and an accompanying consumer “spend

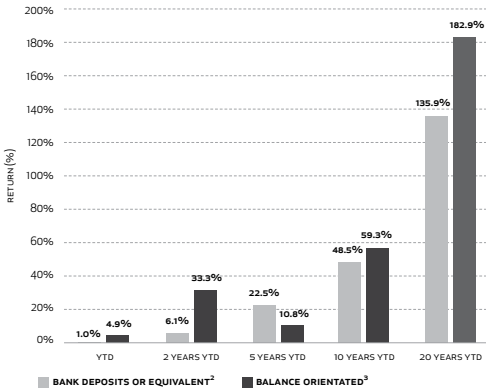
up” as people leverage their newly created home equity. While this may be profitable for the (largely foreign owned) banks, it has a “beggar thy neighbour” feel to it from our perspective.

In contrast, an investment in labour and capital, through ownership of a business (or fractional ownership via a diversified portfolio of shares and corporate bonds) contributes to a cycle of growing business, employment, tax revenues and exports, which ultimately benefit the entire nation.

It is therefore little surprise that, over the long term, returns from holding a diversified range of financial assets compare favourably with the corresponding rate of return earned from bank deposits. This has not occurred in every period and certainly not without volatility, as those who have been invested in a diversified portfolio over the last decade will attest, but the long term trend strongly favours a diversified portfolio approach over bank deposits.

The following table demonstrates this point. It compares the returns from bank deposits (or their equivalent) against the returns from a balance orientated asset allocation benchmark. The balance orientated benchmark return is made up of the market returns from a passively held allocation of assets that is indicative of the combination of assets held in a retirement plan designed for clients who anticipate retiring in the short to medium term. Such clients require a combination of assets which provide some capital stability as well as the potential for wealth accumulation - the allocation of assets therefore comprises a balanced mix of income, inflation and growth assets with a tilt towards income and inflation assets. Please note that the benchmark returns are not the actual returns of clients' personalised investment portfolios, nor are they the actual returns of the Portfolios managed by NZ Funds Management.

### BALANCE ORIENTATED ASSET ALLOCATION BENCHMARK<sup>1</sup>



Please note:

- 1) For comparison purposes all returns are stated after tax, with an assumed PIE tax rate of 28% over the entire period even though the PIE tax regime only started 1 October 2007 and different PIE tax rates have applied since then.
- 2) Bank deposit returns have been estimated using the New Zealand 90-day bank bill index. For bank deposits, no adjustment has been made for assumed investment management fees or advice fees.
- 3) The benchmark returns are based on NZ Funds Management's current opinion of what the indicative asset allocation of the balance orientated retirement plan should be.

There is a long list of reasons why New Zealanders have historically favoured bank deposits as a long-term retirement saving solution. The most forceful is the fear of a permanent loss of capital that may occur from investing in a range of financial assets.

But in thinking about risk it is important to differentiate between the risk of a permanent loss of capital and volatility. Volatility, or the movement of one's portfolio value up and down, is the "price" we pay for the opportunity to grow our capital in excess of what we might achieve from supposedly lower risk investments such as bank deposits. Understanding and accepting an appropriate level of volatility, and having a disciplined approach to savings and investing, dramatically reduces the prospects of incurring permanent capital losses.

Wealth accumulation and retirement income approaches which do not entail a total reliance on the perceived safety of houses and bank deposits are becoming increasingly accessible and reliable for New Zealand baby-boomers. Delivering that alternative through an authorised financial adviser, a personalised retirement plan and professionally managed portfolio, to New Zealanders, is the core of our business.

# Financial Statements

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Chartered Accountants

**INDEPENDENT AUDITOR'S REPORT****To the Unitholders of the Portfolios detailed in Note 1****Report on the Financial Statements**

We have audited the financial statements of the Portfolios on pages 3 to 43, which comprise the balance sheets of each of the Portfolios as at 31 March 2011, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the unitholders and the Manager as a body in accordance with the Financial Reporting Act 1993. Our audit has been undertaken so that we might state to the unitholders and the Manager those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Portfolios and the Manager, for our audit work, for this report, or for the opinions we have formed.

**Manager's Responsibility for the Financial Statements**

The Manager is responsible for the preparation of the financial statements, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the Portfolios' preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Portfolios' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interest in the Portfolios.

**Opinion**

In our opinion, the financial statements on pages 3 to 43:

- > comply with generally accepted accounting practice in New Zealand;
- > comply with International Financial Reporting Standards; and
- > give a true and fair view of the financial position of each of the Portfolios as at 31 March 2011 and their financial performance and cash flows for the year then ended.

**Report on Other Legal and Regulatory Requirements**

In accordance with the Financial Reporting Act 1993, we report that:

- > We have obtained all the information and explanations that we have required.
- > In our opinion proper accounting records have been kept by the Portfolios as far as appears from our examination of those records.

The signature logo for Ernst &amp; Young, written in a cursive, handwritten style.

# Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2011

	NOTE	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO	
		31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 2 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
<b>REVENUE</b>									
Interest Revenue	11	749	1,545	7	3	2	-	213	150
Dividend Revenue		-	-	25	113	-	-	35	478
Net Trading Gains/(Losses)	12	489	-	3,801	2,844	33	-	4,348	2,307
Other Revenue		-	-	5	-	-	-	99	2
<b>TOTAL REVENUE</b>		<b>1,238</b>	<b>1,545</b>	<b>3,838</b>	<b>2,960</b>	<b>35</b>	<b>-</b>	<b>4,695</b>	<b>2,937</b>
<b>EXPENSES</b>									
Audit and Professional Fees	13	1	9	14	7	1	-	53	(10)
Fees and Reimbursable Expenses	14, 18	103	185	641	757	5	-	1,650	1,281
Sundry Expenses		3	(1)	4	2	-	-	6	4
<b>TOTAL EXPENSES</b>		<b>107</b>	<b>193</b>	<b>659</b>	<b>766</b>	<b>6</b>	<b>-</b>	<b>1,709</b>	<b>1,275</b>
<b>NET PROFIT/(LOSS) BEFORE TAXATION</b>		<b>1,131</b>	<b>1,352</b>	<b>3,179</b>	<b>2,194</b>	<b>29</b>	<b>-</b>	<b>2,986</b>	<b>1,662</b>
Taxation Expense	17	-	-	-	-	-	-	-	-
<b>NET PROFIT/(LOSS) AFTER TAXATION</b>		<b>1,131</b>	<b>1,352</b>	<b>3,179</b>	<b>2,194</b>	<b>29</b>	<b>-</b>	<b>2,986</b>	<b>1,662</b>
Other Comprehensive Income		-	-	-	-	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>		<b>1,131</b>	<b>1,352</b>	<b>3,179</b>	<b>2,194</b>	<b>29</b>	<b>-</b>	<b>2,986</b>	<b>1,662</b>

The accompanying notes form part of these financial statements.

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
2	-	22	49	14	63	18	62	8	22	-	1
-	-	950	268	1,931	893	2,816	904	-	-	-	-
44	6	(1,808)	1,750	(6,659)	8,868	(12,768)	14,019	526	1,866	991	672
-	-	-	-	-	2	10	4	25	6	-	-
<b>46</b>	<b>6</b>	<b>(836)</b>	<b>2,067</b>	<b>(4,714)</b>	<b>9,826</b>	<b>(9,924)</b>	<b>14,989</b>	<b>559</b>	<b>1,894</b>	<b>991</b>	<b>673</b>
2	-	12	6	15	17	24	22	8	2	4	2
16	1	613	660	1,714	2,065	2,877	2,539	348	340	241	237
-	-	2	3	4	5	8	7	35	3	-	1
<b>18</b>	<b>1</b>	<b>627</b>	<b>669</b>	<b>1,733</b>	<b>2,087</b>	<b>2,909</b>	<b>2,568</b>	<b>391</b>	<b>345</b>	<b>245</b>	<b>240</b>
28	5	(1,463)	1,398	(6,447)	7,739	(12,833)	12,421	168	1,549	746	433
-	-	-	-	-	-	-	-	-	-	-	-
<b>28</b>	<b>5</b>	<b>(1,463)</b>	<b>1,398</b>	<b>(6,447)</b>	<b>7,739</b>	<b>(12,833)</b>	<b>12,421</b>	<b>168</b>	<b>1,549</b>	<b>746</b>	<b>433</b>
-	-	-	-	-	-	-	-	-	-	-	-
<b>28</b>	<b>5</b>	<b>(1,463)</b>	<b>1,398</b>	<b>(6,447)</b>	<b>7,739</b>	<b>(12,833)</b>	<b>12,421</b>	<b>168</b>	<b>1,549</b>	<b>746</b>	<b>43</b>

# Balance Sheet

AS AT 31 MARCH 2011

	NOTE	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO	
		31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
<b>UNITHOLDERS' FUNDS</b>	10	<b>38,048</b>	<b>50,095</b>	<b>65,377</b>	<b>62,136</b>	<b>2,363</b>	-	<b>91,848</b>	<b>65,817</b>
Represented by:									
<b>ASSETS</b>									
Cash and Cash Equivalents		210	50,122	334	125	757	-	1,483	10,110
Receivables		-	83	-	-	-	-	-	1
Trading Portfolio Assets	7	37,920	-	65,281	62,166	1,620	-	90,818	55,868
Derivative Instruments	16	-	-	-	-	-	-	-	90
Margin Accounts		-	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>		<b>38,130</b>	<b>50,205</b>	<b>65,615</b>	<b>62,291</b>	<b>2,377</b>	-	<b>92,301</b>	<b>66,069</b>
<b>LIABILITIES</b>									
Payables	15,18	82	110	238	155	14	-	453	252
Derivative Instruments	16	-	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>		<b>82</b>	<b>110</b>	<b>238</b>	<b>155</b>	<b>14</b>	-	<b>453</b>	<b>252</b>
<b>NET ASSETS</b>		<b>38,048</b>	<b>50,095</b>	<b>65,377</b>	<b>62,136</b>	<b>2,363</b>	-	<b>91,848</b>	<b>65,817</b>

For and on behalf of the Manager, New Zealand Funds Management Limited, who authorised the issue of these financial statements on 15 July 2011.



Director



Director



Director

The accompanying notes form part of these financial statements.

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
<b>2,459</b>	<b>269</b>	<b>23,074</b>	<b>29,955</b>	<b>63,873</b>	<b>84,448</b>	<b>113,022</b>	<b>127,825</b>	<b>15,498</b>	<b>16,175</b>	<b>11,010</b>	<b>10,828</b>
300	34	1,271	1,027	506	803	1,036	474	16	86	24	22
-	-	-	-	-	-	-	-	-	-	-	-
2,179	235	21,881	29,015	63,551	83,409	112,429	126,877	14,576	16,017	10,999	10,830
-	-	42	111	152	422	332	818	-	-	-	-
-	-	-	-	-	-	-	-	973	114	-	-
<b>2,479</b>	<b>269</b>	<b>23,194</b>	<b>30,153</b>	<b>64,209</b>	<b>84,634</b>	<b>113,797</b>	<b>128,169</b>	<b>15,565</b>	<b>16,217</b>	<b>11,023</b>	<b>10,852</b>
20	-	79	198	152	186	341	344	35	42	13	24
-	-	41	-	184	-	434	-	32	-	-	-
<b>20</b>	<b>-</b>	<b>120</b>	<b>198</b>	<b>336</b>	<b>186</b>	<b>775</b>	<b>344</b>	<b>67</b>	<b>42</b>	<b>13</b>	<b>24</b>
<b>2,459</b>	<b>269</b>	<b>23,074</b>	<b>29,955</b>	<b>63,873</b>	<b>84,448</b>	<b>113,022</b>	<b>127,825</b>	<b>15,498</b>	<b>16,175</b>	<b>11,010</b>	<b>10,828</b>

# Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2011

NOTE	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO		
	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 2 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	
<b>RETAINED EARNINGS</b>									
Opening Retained Earnings/(Deficit)	4,154	2,802	(132)	135	-	-	(48,970)	(50,632)	
Total Comprehensive Income/(Loss)	1,131	1,352	3,179	2,194	29	-	2,986	1,662	
Subtotal	5,285	4,154	3,047	2,329	29	-	(45,984)	(48,970)	
Distribution to Unitholders	-	-	(1,878)	(2,461)	-	-	-	-	
Closing Retained Earnings/(Deficit)	5,285	4,154	1,169	(132)	29	-	(45,984)	(48,970)	
<b>UNITS ISSUED</b>									
Opening Units Issued	45,941	66,538	62,268	54,636	-	-	114,787	99,841	
Units Issued	18,846	33,882	18,974	22,382	2,344	-	37,809	30,024	
Units Redeemed	(32,024)	(54,479)	(18,804)	(17,042)	(10)	-	(14,764)	(15,078)	
Distribution Reinvested	-	-	1,770	2,292	-	-	-	-	
Closing Units Issued	32,763	45,941	64,208	62,268	2,334	-	137,832	114,787	
<b>TOTAL UNITHOLDERS' FUNDS</b>	<b>10</b>	<b>38,048</b>	<b>50,095</b>	<b>65,377</b>	<b>62,136</b>	<b>2,363</b>	<b>-</b>	<b>91,848</b>	<b>65,817</b>
Comprises:									
Retained Earnings/(Deficit)	5,285	4,154	1,169	(132)	29	-	(45,984)	(48,970)	
Units Issued	32,763	45,941	64,208	62,268	2,334	-	137,832	114,787	
		<b>38,048</b>	<b>50,095</b>	<b>65,377</b>	<b>62,136</b>	<b>2,363</b>	<b>-</b>	<b>91,848</b>	<b>65,817</b>

The accompanying notes form part of these financial statements.

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
5	-	825	(573)	5,113	(2,626)	9,215	(3,206)	625	(924)	(253)	(686)
28	5	(1,463)	1,398	(6,447)	7,739	(12,833)	12,421	168	1,549	746	433
33	5	(638)	825	(1,334)	5,113	(3,618)	9,215	793	625	493	(253)
-	-	-	-	-	-	-	-	-	-	-	-
33	5	(638)	825	(1,334)	5,113	(3,618)	9,215	793	625	493	(253)
264	-	29,130	16,509	79,335	58,806	118,610	57,323	15,550	7,887	11,081	10,821
2,334	264	4,022	21,821	12,575	50,005	24,810	83,578	1,675	10,320	1,050	3,835
(172)	-	(9,440)	(9,200)	(26,703)	(29,476)	(26,780)	(22,291)	(2,520)	(2,657)	(1,614)	(3,575)
-	-	-	-	-	-	-	-	-	-	-	-
2,426	264	23,712	29,130	65,207	79,335	116,640	118,610	14,705	15,550	10,517	11,081
<b>2,459</b>	<b>269</b>	<b>23,074</b>	<b>29,955</b>	<b>63,873</b>	<b>84,448</b>	<b>113,022</b>	<b>127,825</b>	<b>15,498</b>	<b>16,175</b>	<b>11,010</b>	<b>10,828</b>
33	5	(638)	825	(1,334)	5,113	(3,618)	9,215	793	625	493	(253)
2,426	264	23,712	29,130	65,207	79,335	116,640	118,610	14,705	15,550	10,517	11,081
<b>2,459</b>	<b>269</b>	<b>23,074</b>	<b>29,955</b>	<b>63,873</b>	<b>84,448</b>	<b>113,022</b>	<b>127,825</b>	<b>15,498</b>	<b>16,175</b>	<b>11,010</b>	<b>10,828</b>

# Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2011

	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO	
	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 2 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Cash was provided from:								
Interest	832	1,751	7	3	1	-	214	149
Dividends	-	-	25	113	-	-	27	82
Other Revenue	-	-	5	-	-	-	99	2
Maturity/Sale of Investments	4,819	-	7,836	35,764	255	-	26,946	42,229
Cash was applied to:								
Payments to Suppliers	(126)	(211)	(661)	(792)	(3)	-	(1,688)	(1,279)
Purchase of Investments	(42,250)	-	(7,150)	(40,304)	(1,842)	-	(57,450)	(51,900)
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>(36,725)</b>	<b>1,540</b>	<b>62</b>	<b>(5,216)</b>	<b>(1,589)</b>	<b>-</b>	<b>(31,852)</b>	<b>(10,717)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>								
Cash was provided from:								
Proceeds from Units Issued	18,840	34,082	18,908	22,562	2,356	-	37,773	30,206
Cash was applied to:								
Distribution to Unitholders	-	-	(108)	(169)	-	-	-	-
Payments for Units Redeemed	(32,027)	(54,454)	(18,653)	(17,061)	(10)	-	(14,548)	(15,072)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>(13,187)</b>	<b>(20,372)</b>	<b>147</b>	<b>5,332</b>	<b>2,346</b>	<b>-</b>	<b>23,225</b>	<b>15,134</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD</b>	<b>(49,912)</b>	<b>(18,832)</b>	<b>209</b>	<b>116</b>	<b>757</b>	<b>-</b>	<b>(8,627)</b>	<b>4,417</b>
Opening Cash and Cash Equivalents Brought Forward	50,122	68,954	125	9	-	-	10,110	5,693
<b>CLOSING CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	<b>210</b>	<b>50,122</b>	<b>334</b>	<b>125</b>	<b>757</b>	<b>-</b>	<b>1,483</b>	<b>10,110</b>
<b>RECONCILIATION OF NET PROFIT/(LOSS) AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Net Profit/(Loss) After Taxation	1,131	1,352	3,179	2,194	29	-	2,986	1,662
Add/(Less) Movements in Working Capital Items:								
Decrease/(Increase) in Receivables	83	206	-	-	-	-	1	(1)
Decrease/(Increase) in Trading Portfolio Assets	(37,920)	-	(3,115)	(7,384)	(1,620)	-	(34,950)	(12,597)
Decrease/(Increase) in Derivative Instruments – Assets	-	-	-	-	-	-	90	223
Increase in Margin Accounts	-	-	-	-	-	-	-	-
Increase/(Decrease) in Payables	(19)	(18)	(2)	(26)	2	-	21	(4)
Increase in Derivative Instruments – Liabilities	-	-	-	-	-	-	-	-
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>(36,725)</b>	<b>1,540</b>	<b>62</b>	<b>(5,216)</b>	<b>(1,589)</b>	<b>-</b>	<b>(31,852)</b>	<b>(10,717)</b>

The accompanying notes form part of these financial statements.

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
2	-	22	49	14	63	18	62	8	22	-	1
-	-	9	33	34	138	54	140	-	-	-	-
-	-	-	-	-	2	10	4	25	6	-	-
140	1	14,308	43,421	34,711	113,402	44,756	121,585	2,349	9,547	1,177	15,367
(16)	(1)	(638)	(638)	(1,779)	(2,010)	(2,949)	(2,383)	(392)	(443)	(256)	(241)
(2,040)	(230)	(7,931)	(55,919)	(19,161)	(135,910)	(39,394)	(184,110)	(1,209)	(17,058)	(355)	(15,397)
<b>(1,914)</b>	<b>(230)</b>	<b>5,770</b>	<b>(13,054)</b>	<b>13,819</b>	<b>(24,315)</b>	<b>2,495</b>	<b>(64,702)</b>	<b>781</b>	<b>(7,926)</b>	<b>566</b>	<b>(270)</b>
2,351	265	3,890	22,420	12,587	51,093	24,833	84,526	1,675	10,334	1,050	3,863
-	-	-	-	-	-	-	-	-	-	-	-
(171)	(1)	(9,416)	(9,200)	(26,703)	(29,514)	(26,766)	(22,297)	(2,526)	(2,652)	(1,614)	(3,575)
<b>2,180</b>	<b>264</b>	<b>(5,526)</b>	<b>13,220</b>	<b>(14,116)</b>	<b>21,579</b>	<b>(1,933)</b>	<b>62,229</b>	<b>(851)</b>	<b>7,682</b>	<b>(564)</b>	<b>288</b>
266	34	244	166	(297)	(2,736)	562	(2,473)	(70)	(244)	2	18
34	-	1,027	861	803	3,539	474	2,947	86	330	22	4
<b>300</b>	<b>34</b>	<b>1,271</b>	<b>1,027</b>	<b>506</b>	<b>803</b>	<b>1,036</b>	<b>474</b>	<b>16</b>	<b>86</b>	<b>24</b>	<b>22</b>
28	5	(1,463)	1,398	(6,447)	7,739	(12,833)	12,421	168	1,549	746	433
-	-	-	-	-	-	-	-	-	-	-	-
(1,944)	(235)	7,134	(14,372)	19,858	(31,709)	14,448	(76,490)	1,441	(9,377)	(169)	(702)
-	-	69	(111)	270	(422)	486	(818)	-	-	-	-
-	-	-	-	-	-	-	-	(859)	(114)	-	-
2	-	(11)	31	(46)	77	(40)	185	(1)	16	(11)	(1)
-	-	41	-	184	-	434	-	32	-	-	-
<b>(1,914)</b>	<b>(230)</b>	<b>5,770</b>	<b>(13,054)</b>	<b>13,819</b>	<b>(24,315)</b>	<b>2,495</b>	<b>(64,702)</b>	<b>781</b>	<b>(7,926)</b>	<b>566</b>	<b>(270)</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

## 1. REPORTING ENTITIES

The reporting entities are Money Market Portfolio, Core Income Portfolio, International Income Portfolio, Mid Term Growth Portfolio, Global Property Portfolio, Balanced Growth Portfolio, Diversified Growth Portfolio, Wealth Appreciation Portfolio, Dividend Yield Portfolio and Credit Opportunities Portfolio ("the Portfolios").

The Portfolios are New Zealand unit trusts. Securities in the Portfolios are currently offered to the public pursuant to a registered prospectus. The securities being offered are units in the Portfolios. These financial statements have been prepared in accordance with the Trust Deeds of the Portfolios, the Unit Trusts Act 1960 and the Financial Reporting Act 1993.

The Money Market Portfolio is no longer a financial institution as defined in amended Appendix E of the New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") 7 *Financial Instruments: Disclosures*. Please refer to note 3(t) *Significant accounting policies* for details.

On 22 December 2010, The New Zealand Guardian Trust Company Limited ceased to be the Trustee of the Mid Term Growth Portfolio, and Perpetual Trust Limited was appointed the Trustee of this Portfolio. As at 31 March 2011, Perpetual Trust Limited is the Trustee of all the Portfolios. The Portfolios are governed by the relevant Trust Deeds with Perpetual Trust Limited. New Zealand Funds Management Limited ("NZ Funds Management") is the Manager.

## 2. BASIS OF PREPARATION

### a) Statement of compliance

The Portfolios' financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with NZ IFRS and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards ("IFRS").

### b) Going concern

The financial statements have been prepared on a going concern basis. The Manager is not aware of any material uncertainty that may cast significant doubt on the Portfolios' ability to continue as going concerns.

### c) Basis of measurement

The financial statements have been prepared on a fair value basis, except assets classified as loans and receivables, and liabilities classified as payables, which are carried at amortised cost.

### d) Functional and presentation currency

Items included in the financial statements of each Portfolio are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Portfolios primarily operate in New Zealand, issuing securities predominantly to New Zealand investors and carrying out their day-to-day business activities in New Zealand. The financial statements are prepared in New Zealand Dollars ("NZD"), which is the Portfolios' functional and reporting currency. Where indicated, financial information presented in NZD has been rounded to the nearest thousand.

### e) Use of estimates in the preparation of the financial statements

In preparing the financial statements in conformity with NZ IFRS, management is required to make certain estimates, judgements and assumptions that affect reported income, expenses, assets and liabilities. The key judgements required in preparing these financial statements relate to the fair value determination of financial instruments. Please refer to note 3(i) *Significant accounting policies* for details.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently to all periods presented in these financial statements.

### a) Classification

The Portfolios adopt the following categories of financial instruments in accordance with accounting standards governing the classification and valuation of financial instruments:

- (i) Financial assets or liabilities at fair value through the profit or loss account (held for trading). These include trading portfolio assets and derivative instruments.
- (ii) Loans and receivables. These include cash and cash equivalents, accrued interest, receivables from other unit trusts and margin accounts.
- (iii) Payables. These represent amounts payable to the Trustee, Manager, unitholders, service providers and other accruals.

**b) Recognition**

The Portfolios use trade date accounting when recording trading portfolio assets and derivative instruments. The trade date is the date that an entity commits itself to purchase or sell an asset. On the trade date, the Portfolios recognise an asset to be received and the liability to pay for it, derecognise an asset that is sold, and recognise any gain or loss on disposal and a receivable from the buyer for payment. Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date, when title passes.

**c) Derecognition**

The Portfolios may enter into transactions where they transfer financial assets recognised on their Balance Sheet but retain either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, the transferred assets are not derecognised from the Balance Sheet. Transfers of financial assets with retention of all or substantially all risks and rewards include securities lending transactions.

For transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Portfolios derecognise the financial asset if control over the financial asset is lost. Any rights and obligations retained in the transfer are recognised separately as financial assets and financial liabilities.

**d) Cash and cash equivalents**

Cash and cash equivalents comprise deposits and call accounts with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, and are subject to an insignificant risk of changes in value.

**e) Receivables**

Receivables are stated at their amortised cost less provision for impairment losses.

**f) Margin accounts**

Margin accounts represent cash deposits held with brokers as collateral against open futures contracts.

**g) Translation of foreign currencies**

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the Statement of Comprehensive Income.

**h) Trading portfolio assets**

Trading portfolio assets consist of investments in unit trusts and/or managed funds. Investments in trading portfolio assets are carried at fair value. Gains and losses realised on disposal or redemption, and unrealised gains and losses from changes in the fair value of trading portfolio assets, are reported as net trading gains/(losses) in the Statement of Comprehensive Income. Interest and dividend revenues on trading portfolio assets are included in interest revenue and dividend revenue, respectively, in the Statement of Comprehensive Income.

**i) Determination of fair value – financial instruments**

The determination of fair value of financial assets and financial liabilities is based on quoted market prices or dealer price quotation for financial instruments traded in active markets.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include using arm's length market transactions, reference to the current market value of another similar financial instrument, discounted cash flow analysis and valuation models.

Inputs to valuation models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include consideration of various factors used in the inputs to the valuation models. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

**j) Derivative instruments and hedging**

The Portfolios may use derivative instruments to hedge their direct and indirect exposure to foreign exchange risk, interest rate risk and market risk. The Portfolios may also hold or issue derivative instruments for trading purposes.

Derivative instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative instruments are carried at fair value. Gains/(losses) realised on disposal and unrealised gains/(losses) from changes in the fair value of derivatives are reported as net trading gains/(losses) in the Statement of Comprehensive Income.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### k) Past due and impaired assets

Past due assets are assets that have not been operated by the counterparty within its key terms for at least 90 days. Impaired assets are assets where the present value of expected future cash flows discounted at the original effective interest rate is less than the carrying value. Restructured assets are assets where the terms of the contract have been changed due to the counterparty having difficulty in complying with the original terms of the contract.

If an asset is impaired, the asset is written down to its estimated recoverable amount. The estimated recoverable amount is calculated as the present value of expected future cash flows discounted at the original effective interest rate, and an impairment loss is recognised in the Statement of Comprehensive Income.

### l) Offsetting

Financial assets and liabilities are offset and the net amount presented in the Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Portfolios' trading activity.

### m) Interest revenue

Interest revenue is recognised using the effective interest method.

### n) Dividend revenue

Dividend revenue is recognised on the date the Portfolios' right to receive payment is established, which in the case of quoted securities is the ex-dividend date. In some cases, the Portfolios may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases, the Portfolios recognise the dividend revenue for the amount of the cash dividend alternative, with a corresponding addition in investment.

### o) Net trading gains/(losses)

Net trading gains/(losses) comprise gains less losses related to trading portfolio assets and derivative instruments. This includes all realised and unrealised fair value changes and foreign exchange differences.

### p) Fees and expenses

The Portfolios incur fees and expenses from a range of services they receive from various service providers. Fees and expenses include audit fees, professional fees, management fees, trustee fees, performance fees and other expenses, including reimbursable expenses allowed by the Trust Deeds. Fees are accrued as services are rendered.

Performance fees are accrued daily, and if due are paid to the Manager quarterly.

### q) Taxation

As the tax liability arising on income allocated to investors is satisfied by cancellation of units, income tax expense is not recognised in the Portfolios. As a consequence, deferred tax is also not recognised.

### r) Goods and services tax (GST)

The Portfolios are not GST registered. Revenues, expenses and assets are recognised gross of GST. Receivables and payables in the Balance Sheet are shown inclusive of GST.

### s) Changes in accounting policies

There have been no changes to the accounting policies for the year ended 31 March 2011.

### t) Early adoption of accounting standards

Appendix E of NZ IFRS 7 *Financial Instruments: Disclosures* has been amended to replace the term "financial institution" with the term "deposit taker", effective 1 April 2011. Earlier application of the amendments is permitted and the Portfolios have taken this option. None of the Portfolios fall within the definition of a deposit taker. On this basis, the disclosure requirements under NZ IFRS 7 Appendix E no longer apply to the Portfolios and the disclosures prepared under the previous version of NZ IFRS 7 Appendix E have been deleted. The deleted notes are "Expected maturity analysis of financial assets and liabilities" which formed part of note 8 (2010: note 9) *Financial instruments and risk management*, and Geographical concentration of Unitholders' Funds which formed part of note 22 (2010: note 23) *Concentration of funding*.

**u) New accounting standards not yet adopted**

NZ IFRS 9 *Financial Instruments: Recognition and Measurement* will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* from 1 January 2013. The new standard divides all financial assets that are currently in the scope of NZ IAS 39 *Financial Instruments: Recognition and Measurement* into two classifications: those measured at amortised cost, and those measured at fair value. The new standard is not likely to have a significant impact on the measurement and recognition of the amounts compared with the current NZ IAS 39 *Financial Instruments: Recognition and Measurement*.

The International Accounting Standards Board issued three new standards on Consolidations, Joint arrangements and Disclosure of Interests in Other Entities in May 2011: IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities*, which will be effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 *Consolidated Financial Statements* that addresses the accounting standards for consolidated financial statements. IFRS 10 also establishes a single control model that applies to all entities (including 'special purpose entities' or 'structured entities' as they are now referred to in the new standards). IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly-controlled Entities – Non Monetary Contributions by Joint Ventures*. IFRS 12 includes all of the disclosure requirements for subsidiaries, joint arrangements, associates and additional disclosures about interests in structured entities (whether or not consolidated). IFRS 12 also requires disclosure of significant judgements and assumptions an entity has made in determining whether it has control, joint control or significant influence over another entity. The impacts on the Portfolios' financial statements are still to be determined.

**4. COMMENCEMENT OF BUSINESS**

Money Market Portfolio, Core Income Portfolio, International Income Portfolio, Global Property Portfolio, Balanced Growth Portfolio, Diversified Growth Portfolio, Wealth Appreciation Portfolio, Dividend Yield Portfolio and Credit Opportunities Portfolio are governed by the Trust Deed with Perpetual Trust Limited dated 28 February 2008. The Mid Term Growth Portfolio is governed by the Trust Deed dated 8 August 1988 with Perpetual Trust Limited, consequent to the retirement of The New Zealand Guardian Trust Company Limited on 22 December 2010. The Portfolios have either been established as original Portfolios under the Trust Deeds or as additional Portfolios by way of executed Supplemental Trust Deeds. Each Portfolio was established on the date specified below.

	DATE ESTABLISHED	DATE BUSINESS COMMENCED
Money Market Portfolio	28/02/2008	28/02/2008
Core Income Portfolio	23/04/2008	25/06/2008
International Income Portfolio	30/03/2010	23/09/2010
Mid Term Growth Portfolio	20/12/1994	20/12/1994
Global Property Portfolio	28/02/2008	5/11/2009
Balanced Growth Portfolio	28/02/2008	28/02/2008
Diversified Growth Portfolio	28/02/2008	28/02/2008
Wealth Appreciation Portfolio	28/02/2008	28/02/2008
Dividend Yield Portfolio	28/02/2008	28/02/2008
Credit Opportunities Portfolio	23/04/2008	25/06/2008

There are no new supplemental deeds for the year ended 31 March 2011.

**5. AMENDMENT TO TRUST DEEDS**

The Trust Deed dated 28 February 2008 was amended on 1 June 2010 to allow for the Manager in its absolute discretion to suspend accepting new applications for units in a Portfolio, for a period of time it considers appropriate; and was amended on 23 December 2010 to remove all reference to the New Zealand Crown Deposit Guarantee Scheme ("Crown Guarantee") that applied to the Money Market Portfolio consequent to the expiry of that Crown Guarantee on 12 October 2010.

Subsequent to the retirement of The New Zealand Guardian Trust Company Limited on 22 December 2010 as the Trustee of the Mid Term Growth Portfolio, the Trust Deed dated 8 August 1988 was amended to include all amendments required by the new Trustee, Perpetual Trust Limited.

**6. PRINCIPAL BUSINESS ACTIVITY**

The principal business activity of the Portfolios is to invest in financial instruments.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

## 7. TRADING PORTFOLIO ASSETS

The Portfolios invested some or substantially all of their assets in Global Investment Services Limited ("GISL") and New Zealand Funds Superannuation Limited ("NZFS") trusts (refer to note 18 *Related Party*). By contributing different amounts or by holding different percentages of investments of the GISL and NZFS trusts, the returns of the Portfolios can differ.

INVESTMENTS IN TRADING PORTFOLIO ASSETS	31/03/11 \$000	31/03/10 \$000
Money Market Portfolio	37,920	-
Core Income Portfolio	65,281	62,166
International Income Portfolio	1,620	-
Mid Term Growth Portfolio	90,818	55,868
Global Property Portfolio	2,179	235
Balanced Growth Portfolio	21,881	29,015
Diversified Growth Portfolio	63,551	83,409
Wealth Appreciation Portfolio	112,429	126,877
Dividend Yield Portfolio	14,576	16,017
Credit Opportunities Portfolio	10,999	10,830

## 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### a) Overview

The principal business activity of the Portfolios is to invest in financial instruments. This section contains information about certain risks arising from the Portfolios' exposure to financial instruments and how they are managed.

The Portfolios' risks discussed below are:

- (i) Market risk – the risk of loss arising from exposure to interest rate risk, currency risk and/or equity price risk.
- (ii) Credit risk – the risk of loss arising from a counterparty failing to meet its contractual obligations.
- (iii) Liquidity risk – the risk that the Portfolios are unable to meet payment obligations when due.

The Portfolios invest some or substantially all of their assets in the GISL and NZFS trusts. This may expose the Portfolios to concentration risk. Please refer to note 18 *Related party*.

The Portfolios and the GISL and NZFS trusts may utilise an active investment management approach. This may expose the Portfolios to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by the Manager. The Portfolios may directly or indirectly use leverage and take short positions.

### b) Risk management structure

The responsibility for the Portfolios' risk management lies with the Manager, which, at balance date, delegated this to the following individuals and committees:

- (i) Investment Committee Meeting ("ICM") – responsible for formulating and approving investment process, formulating and approving the Portfolios' mandates, identifying and monitoring investment risks, and monitoring investment performance.
- (ii) Advisory Committee – responsible for the compliance with the legislation in relation to the provision of advice under the Financial Advisers Act 2008 and the Financial Services Providers (Registration and Dispute Resolution) Act 2008.
- (iii) Investment Risk Management and Compliance Committee ("IRC") – responsible for monitoring and reporting to ICM matters with regard to compliance of established Portfolios' internal mandates, policies and processes.
- (iv) Offer Committee – responsible for addressing matters arising in the offering of the Portfolios, with particular reference to the requirements of the Securities Act 1978, including its associated regulations and exemptions.
- (v) Operational Risk Committee – responsible for addressing operational matters arising in the Portfolios, and providing direction and guidance to the Audit and Service Risk Committee in their focus on addressing operational risks, within its area of responsibilities.

- (vi) Audit and Service Risk Committee – responsible for addressing issues arising from the Portfolios’ operational matters.
- (vii) Portfolio Managers – responsible for identifying and managing investment risks, within the scope of the Portfolios’ mandates.

The structure of risk management was changed subsequent to 31 March 2010. As at 31 March 2011, both the Investment Business Group and the Investment Compliance Committee as noted in the annual financial statements as at 31 March 2010 have been renamed as the ICM and IRC. The Business Risk Committee as noted in the 31 March 2010 annual financial statements was terminated, and its responsibilities now lie with the Advisory Committee, the Offer Committee, the Operational Risk Committee, and the Audit and Service Risk Committee.

**c) Risk measurement**

The Portfolios’ risks are measured by:

- (i) Using an assessment of the expected loss likely to arise for a given market movement; and/or
- (ii) Using statistical modelling where the models make use of the probabilities derived from historical experience which may or may not be adjusted for New Zealand Funds Management Limited’s active investment management approach; and/or
- (iii) Using practical industry or corporate knowledge.

**d) Risk mitigation**

The Portfolios’ objectives are set out in the Investment Statement. The Portfolios’ objectives determine the Portfolios’ targeted tolerance for risk. The Portfolios’ investment processes and/or mandates determine the policies and processes for mitigating risk.

Where the Manager deems appropriate, mandates may set risk limits and/or restrict the Portfolios from investing in certain financial instruments.

The Portfolios may use an active investment management approach to risk mitigation. The aim of this approach is to maintain a balance between the preservation of capital and the pursuit of investment returns, which is appropriate to the investment category in which the Portfolio sits. In order to implement an active investment management strategy, the Manager in its sole discretion may undertake certain actions depending on its view of the prevailing market and economic conditions (and other circumstances). Those actions may include, but are not limited to altering the proportion invested in each asset class, altering the manner in which the Portfolio is exposed to each asset class by investing, directly or indirectly, in derivatives and collective investment vehicles or by applying hedging, taking short positions and using leverage. The active investment management approach and these financial instruments may or may not be successful in mitigating risk.

**e) Market risk**

Market risk is the risk of loss arising from exposure to interest rate risk, currency risk and/or equity price risk.

Market risk is incurred by the Portfolios through trading activities and the holding of financial instruments. A typical transaction may be exposed to a number of different market risks.

The Portfolios’ investments in the GISL and NZFS trusts are treated as equity instruments; hence the Portfolios are exposed to equity price risk. However, the underlying financial instruments of the GISL and NZFS trusts frequently include financial instruments which are not equity instruments. Consequently the Portfolios are likely to be indirectly exposed to a variety of risks other than equity price risk. It is determined that these indirect exposures are captured in the equity price risk disclosure. It is also determined that credit risk arising on equity instrument exposure is captured in the equity price risk disclosure.

In incurring market risk, the Portfolios and the GISL and NZFS trusts may utilise an active investment management approach. This may expose the Portfolios to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by the Manager. Additionally, the Portfolios’ ability to directly or indirectly use leverage and take short positions may increase these risks.

Concentration of market risk could exist if the Portfolios have significant positions in a single financial instrument, or aggregate positions in several financial instruments. The Portfolios’ exposure to investments in the GISL and NZFS trusts are set out in note 18 *Related party*.

Market risk is measured as per (c) and managed as per (d) by the risk management structure specified in (b).

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

## 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### (i) Interest rate risk

Interest rate risk is the risk of loss arising from exposure to interest rates.

Interest rate risk is incurred by the Portfolios through trading activities and the holding of financial instruments.

In incurring interest rate risk, the Portfolios and the GISL and NZFS trusts may utilise an active investment management approach. This may expose the Portfolios to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by the Manager. Additionally, the Portfolios' ability to directly or indirectly use leverage and take short positions may increase these risks.

Sensitivity to interest rate risk is expressed as the impact on carrying values of a 24-basis point (0.24%) change in interest rates (2010: 0.25%).

Concentration of interest rate risk could exist if the Portfolios have significant positions in a single financial instrument exposed to interest rate risk, or aggregate positions in several financial instruments exposed to interest rate risk.

Interest rate risk is measured as per (c) and managed as per (d) by the risk management structure specified in (b).

<b>DIRECT EXPOSURE OF FINANCIAL INSTRUMENTS TO INTEREST RATE RISK</b>	<b>31/03/11 \$000</b>	<b>31/03/10 \$000</b>
Money Market Portfolio	210	50,122
Core Income Portfolio	334	125
International Income Portfolio	757	-
Mid Term Growth Portfolio	1,483	10,110
Global Property Portfolio	300	34
Balanced Growth Portfolio	1,271	1,027
Diversified Growth Portfolio	506	803
Wealth Appreciation Portfolio	1,036	474
Dividend Yield Portfolio	989	200
Credit Opportunities Portfolio	24	22

<b>INCREASE/(DECREASE) IN COMPREHENSIVE INCOME AND UNITHOLDERS' FUNDS BASED ON THE ESTIMATED INTEREST INCOME MOVEMENT</b>	<b>\$ IMPACT GIVEN 0.24% INCREASE IN RATES 31/03/11 \$000</b>	<b>\$ IMPACT GIVEN 0.24% DECREASE IN RATES 31/03/11 \$000</b>	<b>\$ IMPACT GIVEN 0.25% INCREASE IN RATES 31/03/10 \$000</b>	<b>\$ IMPACT GIVEN 0.25% DECREASE IN RATES 31/03/10 \$000</b>
Money Market Portfolio	1	(1)	125	(125)
Core Income Portfolio	1	(1)	-	-
International Income Portfolio	2	(2)	-	-
Mid Term Growth Portfolio	4	(4)	25	(25)
Global Property Portfolio	1	(1)	-	-
Balanced Growth Portfolio	3	(3)	3	(3)
Diversified Growth Portfolio	1	(1)	2	(2)
Wealth Appreciation Portfolio	2	(2)	1	(1)
Dividend Yield Portfolio	2	(2)	-	-
Credit Opportunities Portfolio	-	-	-	-

Actual trading results are likely to differ from the sensitivity analysis required by NZ IFRS 7 *Financial Instruments: Disclosures* and the differences could be significant.

(ii) Currency risk

Currency risk is the risk of loss arising from exposure to currency.

Currency risk is incurred by the Portfolios through trading activities and the holding of financial instruments.

In incurring currency risk, the Portfolios and the GISL and NZFS trusts may utilise an active investment management approach. This may expose the Portfolios to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by the Manager. Additionally, the Portfolios' ability to directly or indirectly use leverage and take short positions may increase these risks.

Sensitivity to currency risk is expressed as the impact on carrying values of a 14% (2010: 14%) change in exchange rates.

Concentration of currency risk could exist if the Portfolios have significant positions in a single financial instrument exposed to currency risk, or aggregate positions in several financial instruments exposed to currency risk.

Currency risk is measured as per (c) and managed as per (d) by the risk management structure specified in (b).

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

## 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO	
	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
<b>DIRECT CURRENCY EXPOSURE (IN NZD EQUIVALENT)</b>								
Australian Dollars (AUD)	-	-	-	-	-	-	-	4,320
Euros (EUR)	-	-	-	-	-	-	-	-
US Dollars (USD)	-	-	-	-	-	-	-	-
Japanese Yen (JPY)	-	-	-	-	-	-	-	-
Swiss Francs (CHF)	-	-	-	-	-	-	-	-
Norwegian Krone (NOK)	-	-	-	-	-	-	-	-
<b>TOTAL CURRENCY EXPOSURE</b>	-	-	-	-	-	-	-	<b>4,320</b>
Total currency hedging		-	-	-	-	-	-	4,062
<b>NET CURRENCY EXPOSURE - NET TOTAL OF LONG AND (SHORT) CURRENCIES</b>	-	-	-	-	-	-	-	<b>258</b>
\$ impact on Comprehensive Income and Unitholders' Funds given 14% (2010: 14%) increase in exchange rates	-	-	-	-	-	-	-	36
\$ impact on Comprehensive Income and Unitholders' Funds given 14% (2010: 14%) decrease in exchange rates	-	-	-	-	-	-	-	(36)
<b>GROSS CURRENCY EXPOSURE - ABSOLUTE TOTAL OF LONG AND (SHORT) CURRENCIES</b>	-	-	-	-	-	-	-	<b>258</b>
\$ impact on Comprehensive Income and Unitholders' Funds given 14% (2010: 14%) increase in exchange rates	-	-	-	-	-	-	-	36
\$ impact on Comprehensive Income and Unitholders' Funds given 14% (2010: 14%) decrease in exchange rates	-	-	-	-	-	-	-	(36)

Actual trading results are likely to differ from the sensitivity analysis required by NZ IFRS 7 *Financial Instruments: Disclosures* and the differences could be significant.

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
-	-	-	-	-	-	-	-	133	-	-	-
-	-	135	(1,505)	507	(5,928)	1,097	(11,576)	-	-	-	-
-	-	357	-	3,897	-	10,769	-	(13)	-	-	-
-	-	-	(2,964)	-	(11,598)	-	(22,936)	-	-	-	-
-	-	137	1,509	529	5,905	1,153	11,598	-	-	-	-
-	-	158	-	505	-	1,115	-	-	-	-	-
-	-	<b>787</b>	<b>(2,960)</b>	<b>5,438</b>	<b>(11,621)</b>	<b>14,134</b>	<b>(22,914)</b>	<b>120</b>	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	<b>787</b>	<b>(2,960)</b>	<b>5,438</b>	<b>(11,621)</b>	<b>14,134</b>	<b>(22,914)</b>	<b>120</b>	-	-	-
-	-	110	(414)	761	(1,627)	1,979	(3,208)	17	-	-	-
-	-	(110)	414	(761)	1,627	(1,979)	3,208	(17)	-	-	-
-	-	<b>787</b>	<b>5,978</b>	<b>5,438</b>	<b>23,431</b>	<b>14,134</b>	<b>46,110</b>	<b>146</b>	-	-	-
-	-	110	(837)	761	(3,280)	1,979	(6,455)	20	-	-	-
-	-	(110)	837	(761)	3,280	(1,979)	6,455	(20)	-	-	-

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

## 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### (iii) Equity price risk

Equity price risk is the risk of loss arising from exposure to equity risk.

Equity price risk is incurred by the Portfolios through trading activities and the holding of financial instruments.

The Portfolios' investments in the GISL and NZFS trusts are treated as equity instruments; hence the Portfolios are exposed to equity price risk. However, the underlying financial instruments of the GISL and NZFS trusts frequently include financial instruments which are not equity instruments. Consequently the Portfolios are likely to be indirectly exposed to a variety of risks other than equity price risk. It is determined that these indirect exposures are captured in the equity price risk disclosure. It is also determined that credit risk arising on equity instrument exposure is captured in the equity price risk disclosure.

In incurring equity price risk, the Portfolios and the GISL and NZFS trusts may utilise an active investment management approach. This may expose the Portfolios to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by the Manager. Additionally, the Portfolios' ability to directly or indirectly use leverage and take short positions may increase these risks.

Sensitivity to equity price risk is expressed as the impact on carrying values of a range of changes in equity prices.

Concentration of equity price risk could exist if the Portfolios have significant positions in a single financial instrument exposed to equity price risk, or aggregate positions in several financial instruments exposed to equity price risk. The Portfolios' exposure to investments in the GISL and NZFS trusts are set out in note 18 *Related party*.

Equity price risk is measured as per (c) and managed as per (d) by the risk management structure specified in (b).

EXPOSURE OF FINANCIAL INSTRUMENTS TO EQUITY PRICE RISK	31/03/11 \$000	31/03/10 \$000
Money Market Portfolio	37,920	-
Core Income Portfolio	65,281	62,166
International Income Portfolio	1,620	-
Mid Term Growth Portfolio	90,818	55,868
Global Property Portfolio	2,179	235
Balanced Growth Portfolio	21,881	29,015
Diversified Growth Portfolio	63,551	83,409
Wealth Appreciation Portfolio	112,429	126,877
Dividend Yield Portfolio	14,576	16,017
Credit Opportunities Portfolio	10,999	10,830

INCREASE/(DECREASE) IN COMPREHENSIVE INCOME AND UNITHOLDERS' FUNDS BASED ON THE ESTIMATED EQUITY PRICE MOVEMENT	CHANGE IN EQUITY PRICE RELATIVE TO EXPOSURE TO EQUITY PRICE RISK	\$IMPACT GIVEN MARKET PRICES INCREASE	\$IMPACT GIVEN MARKET PRICES DECREASE	CHANGE IN EQUITY PRICE RELATIVE TO EXPOSURE TO EQUITY PRICE RISK	\$IMPACT GIVEN MARKET PRICES INCREASE	\$IMPACT GIVEN MARKET PRICES DECREASE
	31/03/11 %	31/03/11 \$000	31/03/11 \$000	31/03/10 %	31/03/10 \$000	31/03/10 \$000
Money Market Portfolio	-	-	-	-	-	-
Core Income Portfolio	6	3,917	(3,917)	5	3,108	(3,108)
International Income Portfolio	6	97	(97)	-	-	-
Mid Term Growth Portfolio	8	7,265	(7,265)	9	5,028	(5,028)
Global Property Portfolio	21	458	(458)	11	26	(26)
Balanced Growth Portfolio	17	3,720	(3,720)	17	4,933	(4,933)
Diversified Growth Portfolio	17	10,804	(10,804)	17	14,180	(14,180)
Wealth Appreciation Portfolio	17	19,113	(19,113)	17	21,569	(21,569)
Dividend Yield Portfolio	17	2,478	(2,478)	17	2,723	(2,723)
Credit Opportunities Portfolio	25	2,750	(2,750)	26	2,816	(2,816)

Actual trading results are likely to differ from the sensitivity analysis required by NZ IFRS 7 *Financial Instruments: Disclosures* and the differences could be significant.

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# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

## 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### f) Credit risk

Credit risk is the risk of loss arising from exposure to counterparties.

Credit risk is incurred by the Portfolios through trading activities and the holding of financial instruments. The Portfolios' ability to directly or indirectly use leverage and take short positions may increase these risks.

For risk management purposes, credit risk, arising on equity instruments is captured in the equity price risk exposure.

The following table sets out the calculated credit exposure of the Portfolios. For derivatives, credit exposure takes into account netting agreements with individual counterparties which are shown on the Balance Sheet as assets and liabilities respectively.

The Money Market Portfolio had the benefit of the Crown Guarantee until 12 October 2010, when the Crown Guarantee expired. Therefore, there was no direct credit risk comparative disclosed in the prior year.

Concentration of credit risk could exist if the Portfolios have significant exposure to a single counterparty, or aggregate exposure to several counterparties. For risk management purposes, the Portfolios' credit exposure to investments in the GISL and NZFS trusts set out in note 18 *Related party*, is considered equity price risk and is captured in the equity price risk exposure.

Credit risk is measured as per (c) and managed as per (d) by the risk management structure specified in (b).

	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO	
	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
<b>DIRECT CREDIT RISK</b>								
<i>Breakdown of credit exposure</i>								
Cash and cash equivalents	210	-	334	125	757	-	1,483	10,110
Receivables	-	-	-	-	-	-	-	1
Derivative instruments	-	-	-	-	-	-	-	90
Margin accounts	-	-	-	-	-	-	-	-
<b>TOTAL CREDIT EXPOSURE NET OF PROVISION FOR IMPAIRMENT</b>	<b>210</b>	<b>-</b>	<b>334</b>	<b>125</b>	<b>757</b>	<b>-</b>	<b>1,483</b>	<b>10,201</b>

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
300	34	1,271	1,027	506	803	1,036	474	16	86	24	22
-	-	-	-	-	-	-	-	-	-	-	-
-	-	42	111	152	422	332	818	-	-	-	-
-	-	-	-	-	-	-	-	973	114	-	-
<b>300</b>	<b>34</b>	<b>1,313</b>	<b>1,138</b>	<b>658</b>	<b>1,225</b>	<b>1,368</b>	<b>1,292</b>	<b>989</b>	<b>200</b>	<b>24</b>	<b>22</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

## 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### g) Liquidity risk

Liquidity risk is the risk that the Portfolios are unable to meet payment obligations when due.

Liquidity risk is incurred by the Portfolios through trading activities and the holding of financial instruments.

The Portfolios are exposed to liquidity risk because of the possibility that the Portfolios could be required to pay their liabilities or redeem their units earlier than expected, and/or because the Portfolios' financial instruments are not saleable within a given timeframe, and/or because the Portfolios' financial instruments are not saleable for fair value within a given timeframe. The Portfolios are exposed to unit redemptions on a regular basis. Additionally, the Portfolios' ability to directly or indirectly use leverage and take short positions may increase these risks.

As set out in Note 10 *Units on issue*, investors in certain Portfolios are required to give prior notification of an intention to redeem.

Concentration of liquidity risk could exist if the Portfolios have significant positions in a single financial instrument or counterparty, or aggregate positions in several financial instruments or counterparties which become illiquid. The Portfolios' exposure to investments in the GISL and NZFS trusts are set out in note 18 *Related party*.

Liquidity risk is measured as per (c) and managed as per (d) by the risk management structure specified in (b).

	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO	
CONTRACTUAL MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
<b>FINANCIAL ASSETS</b>								
<i>On demand</i>								
Cash and cash equivalents	210	50,122	334	125	757	-	1,483	10,110
Receivables	-	83	-	-	-	-	-	1
Trading portfolio assets	37,920	-	65,281	62,166	1,620	-	90,818	55,868
Margin accounts	-	-	-	-	-	-	-	-
<i>Due within 12 months</i>								
Derivative instruments	-	-	-	-	-	-	-	90
Margin accounts	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>38,130</b>	<b>50,205</b>	<b>65,615</b>	<b>62,291</b>	<b>2,377</b>	<b>-</b>	<b>92,301</b>	<b>66,069</b>
<b>FINANCIAL LIABILITIES</b>								
<i>On demand</i>								
Payables	82	110	238	155	14	-	453	252
Due within 12 months								
Derivative instruments	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>82</b>	<b>110</b>	<b>238</b>	<b>155</b>	<b>14</b>	<b>-</b>	<b>453</b>	<b>252</b>

*Financial assets*

The maturity groupings are based on the earlier of either the remaining period from the end of the reporting period to the contractual maturity date or the expected date by which an asset will be realised.

*Financial liabilities*

The maturity groupings are based on the earlier of either the remaining period from the end of the reporting period to the contractual maturity date or, where counterparties have a choice of when an amount is to be paid, the earliest period by which a Portfolio can be required to pay.

*Derivatives*

The Manager considers the contractual maturities of derivatives to be important in understanding the timing of cash flows.

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
300	34	1,271	1,027	506	803	1,036	474	16	86	24	22
-	-	-	-	-	-	-	-	-	-	-	-
2,179	235	21,881	29,015	63,551	83,409	112,429	126,877	14,576	16,017	10,999	10,830
-	-	-	-	-	-	-	-	903	114	-	-
-	-	42	111	152	422	332	818	-	-	-	-
-	-	-	-	-	-	-	-	70	-	-	-
<b>2,479</b>	<b>269</b>	<b>23,194</b>	<b>30,153</b>	<b>64,209</b>	<b>84,634</b>	<b>113,797</b>	<b>128,169</b>	<b>15,565</b>	<b>16,217</b>	<b>11,023</b>	<b>10,852</b>
20	-	79	198	152	186	341	344	35	42	13	24
-	-	41	-	184	-	434	-	32	-	-	-
<b>20</b>	<b>-</b>	<b>120</b>	<b>198</b>	<b>336</b>	<b>186</b>	<b>775</b>	<b>344</b>	<b>67</b>	<b>42</b>	<b>13</b>	<b>24</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

## 9. USE OF ESTIMATES AND VALUATION OF FINANCIAL INSTRUMENTS

### Fair value basis

*Financial assets and liabilities recorded at fair value*

Assets in the Portfolios' trading portfolios and derivative instruments are recorded at fair value on the Balance Sheet, with changes in fair value recorded in net trading gains/(losses) in the Statement of Comprehensive Income. Key judgements and the use of estimates affecting this accounting policy relate to how the Portfolios determine fair value for such assets and liabilities.

Although a significant degree of judgement is, in some cases, required in establishing fair values, management believes the fair values recorded in the Balance Sheet and the changes in fair values recorded in the Statement of Comprehensive Income reflect the underlying economics, based on the controls and procedural safeguards that the Portfolios employ.

According to NZ IFRS 7 *Financial Instruments: Disclosures*, a three level hierarchy of disclosures is required for financial instruments measured at fair value. The three levels are defined below:

- (a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 March 2011, the Portfolios have direct investments in trading portfolio assets and derivative instruments of which fair values are classified as Level 1 and Level 2.

#### (a) Level 1 investments

- (i) The volatility index futures are standard futures contracts, which the fair value can be observed from active regulated exchanges.

#### (b) Level 2 investments

- (i) The Portfolios' trading portfolio assets include investments in unlisted unit trusts which are not quoted in an active market. Investments in these unit trusts are valued based on the Net Asset Value (NAV) per unit calculated by the administrator of these unit trusts and funds on a regular basis.
- (ii) Over-the-counter ("OTC") foreign exchange forward contracts are valued using widely recognised valuation models. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs, including foreign exchange spot and forward rates, interest rate differentials and forward points. The inputs into models are market observable and are therefore included within Level 2.

Due to the short-term nature of financial assets and liabilities recorded at amortised cost, it is assumed that the carrying amount of these instruments approximates their fair value.

The following tables show financial instruments recognised at fair value, analysed for those whose fair value is based on Levels 1 and 2:

FAIR VALUE BASIS MONEY MARKET PORTFOLIO	LEVEL 1	31/03/11 LEVEL 2	TOTAL	LEVEL 1	31/03/10 LEVEL 2	TOTAL
	\$000	\$000	\$000	\$000	\$000	\$000
Financial assets designated at fair value through profit or loss:						
(i) Trading portfolio assets						
Unlisted unit trusts	-	37,920	37,920	-	-	-
(ii) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss:						
(i) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-

<b>FAIR VALUE BASIS CORE INCOME PORTFOLIO</b>	<b>LEVEL 1 \$000</b>	<b>31/03/11 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>	<b>LEVEL 1 \$000</b>	<b>31/03/10 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>
Financial assets designated at fair value through profit or loss:						
(i) Trading portfolio assets						
Unlisted unit trusts	-	65,281	65,281	-	62,166	62,166
(ii) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss:						
(i) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-

<b>FAIR VALUE BASIS INTERNATIONAL INCOME PORTFOLIO</b>	<b>LEVEL 1 \$000</b>	<b>31/03/11 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>	<b>LEVEL 1 \$000</b>	<b>31/03/10 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>
Financial assets designated at fair value through profit or loss:						
(i) Trading portfolio assets						
Unlisted unit trusts	-	1,620	1,620	-	-	-
(ii) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss:						
(i) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-

<b>FAIR VALUE BASIS MID TERM GROWTH PORTFOLIO</b>	<b>LEVEL 1 \$000</b>	<b>31/03/11 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>	<b>LEVEL 1 \$000</b>	<b>31/03/10 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>
Financial assets designated at fair value through profit or loss:						
(i) Trading portfolio assets						
Unlisted unit trusts	-	90,818	90,818	-	55,868	55,868
(ii) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	90	90
Financial liabilities designated at fair value through profit or loss:						
(i) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-

# Notes to and forming part of the Financial Statements

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## 9. USE OF ESTIMATES AND VALUATION OF FINANCIAL INSTRUMENTS (CONTINUED)

<b>FAIR VALUE BASIS GLOBAL PROPERTY PORTFOLIO</b>	<b>LEVEL 1 \$000</b>	<b>31/03/11 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>	<b>LEVEL 1 \$000</b>	<b>31/03/10 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>
Financial assets designated at fair value through profit or loss:						
(i) Trading portfolio assets						
Unlisted unit trusts	-	2,179	2,179	-	235	235
(ii) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss:						
(i) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-

<b>FAIR VALUE BASIS BALANCED GROWTH PORTFOLIO</b>	<b>LEVEL 1 \$000</b>	<b>31/03/11 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>	<b>LEVEL 1 \$000</b>	<b>31/03/10 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>
Financial assets designated at fair value through profit or loss:						
(i) Trading portfolio assets						
Unlisted unit trusts	-	21,881	21,881	-	29,015	29,015
(ii) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	42	42	-	111	111
Financial liabilities designated at fair value through profit or loss:						
(i) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	41	41	-	-	-

<b>FAIR VALUE BASIS DIVERSIFIED GROWTH PORTFOLIO</b>	<b>LEVEL 1 \$000</b>	<b>31/03/11 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>	<b>LEVEL 1 \$000</b>	<b>31/03/10 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>
Financial assets designated at fair value through profit or loss:						
(i) Trading portfolio assets						
Unlisted unit trusts	-	63,551	63,551	-	83,409	83,409
(ii) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	152	152	-	422	422
Financial liabilities designated at fair value through profit or loss:						
(i) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	184	184	-	-	-

<b>FAIR VALUE BASIS WEALTH APPRECIATION PORTFOLIO</b>	<b>LEVEL 1 \$000</b>	<b>31/03/11 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>	<b>LEVEL 1 \$000</b>	<b>31/03/10 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>
Financial assets designated at fair value through profit or loss:						
(i) Trading portfolio assets						
Unlisted unit trusts	-	112,429	112,429	-	126,877	126,877
(ii) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	332	332	-	818	818
Financial liabilities designated at fair value through profit or loss:						
(i) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	434	434	-	-	-

<b>FAIR VALUE BASIS DIVIDEND YIELD PORTFOLIO</b>	<b>LEVEL 1 \$000</b>	<b>31/03/11 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>	<b>LEVEL 1 \$000</b>	<b>31/03/10 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>
Financial assets designated at fair value through profit or loss:						
(i) Trading portfolio assets						
Unlisted unit trusts	-	14,576	14,576	-	16,017	16,017
(ii) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss:						
(i) Derivative instruments						
Volatility index futures	32	-	32	-	-	-
Foreign exchange forwards	-	-	-	-	-	-

<b>FAIR VALUE BASIS CREDIT OPPORTUNITIES PORTFOLIO</b>	<b>LEVEL 1 \$000</b>	<b>31/03/11 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>	<b>LEVEL 1 \$000</b>	<b>31/03/10 LEVEL 2 \$000</b>	<b>TOTAL \$000</b>
Financial assets designated at fair value through profit or loss:						
(i) Trading portfolio assets						
Unlisted unit trusts	-	10,999	10,999	-	10,830	10,830
(ii) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss:						
(i) Derivative instruments						
Volatility index futures	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-

## Notes to and forming part of the Financial Statements

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### 10. UNITS ON ISSUE

Unitholders' Funds as outlined below are defined as puttable instruments, which are classified as equity, in the context of NZ IAS 32 *Financial Instruments: Presentation*.

Redemptions by investors in the Money Market Portfolio are usually paid within four (4) business days of receipt of notice.

Investors in Core Income Portfolio, International Income Portfolio, Mid Term Growth Portfolio, Global Property Portfolio, Balanced Growth Portfolio, Diversified Growth Portfolio, Wealth Appreciation Portfolio and Dividend Yield Portfolio must give 63 days prior notice of an intention to redeem or switch their investment. The 63 day notice period will not apply to units in the Mid Term Growth Portfolio that were subscribed to prior to 31 October 2005.

Investors in Credit Opportunities Portfolio must give 91 days prior notice of an intention to redeem or switch their investment. In addition, subject to the Manager's discretion, redemptions and switches from the Credit Opportunities Portfolio are only permitted to occur on certain dates set by the Manager from time to time.

Redemptions will then usually be paid within four (4) business days after the expiry of the relevant notice periods.

The Trust Deeds provide for a redemption payment period of up to 20 business days. The Trust Deeds also permit the Manager to prescribe additional limitations, restrictions and prohibitions on withdrawals.

The table below shows the movements of units on issue:

	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO	
	31/03/11 365 days	31/03/10 365 days	31/03/11 365 days	31/03/10 365 days	31/03/11 365 days	31/03/10 2 days	31/03/11 365 days	31/03/10 365 days
<b>UNITS ON ISSUE</b>	000	000	000	000	000	000	000	000
Units on issue at the beginning of the period	45,452	64,322	61,580	53,995	-	-	53,583	41,232
Units issued	16,886	31,128	20,067	24,481	2,334	-	30,472	24,835
Units redeemed	(28,718)	(49,998)	(18,258)	(16,896)	(10)	-	(11,844)	(12,484)
<b>UNITS ON ISSUE AT THE END OF THE PERIOD</b>	<b>33,620</b>	<b>45,452</b>	<b>63,389</b>	<b>61,580</b>	<b>2,324</b>	<b>-</b>	<b>72,211</b>	<b>53,583</b>
Represented by								
<b>TOTAL UNITHOLDERS' FUNDS (\$'000)</b>	<b>38,048</b>	<b>50,095</b>	<b>65,377</b>	<b>62,136</b>	<b>2,363</b>	<b>-</b>	<b>91,848</b>	<b>65,817</b>

Core Income Portfolio has made distributions to unitholders. The dollar amounts per unit distributed are set out below. No other Portfolios have made distributions in current or prior periods.

	15/02/11 \$/unit	16/11/10 \$/unit	17/08/10 \$/unit	18/05/10 \$/unit	16/02/10 \$/unit	17/11/09 \$/unit	24/08/09 \$/unit	19/05/09 \$/unit
Core Income Portfolio	0.0077	0.0078	0.0075	0.0075	0.0075	0.0095	0.0105	0.0152

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 365 days 000	31/03/10 365 days 000	31/03/11 365 days 000	31/03/10 365 days 000	31/03/11 365 days 000	31/03/10 365 days 000	31/03/11 365 days 000	31/03/10 365 days 000	31/03/11 365 days 000	31/03/10 365 days 000	31/03/11 365 days 000	31/03/10 365 days 000
262	-	29,509	16,478	83,430	60,359	127,597	60,642	17,248	8,336	10,962	10,699
2,267	263	4,131	22,283	13,318	53,017	26,564	90,276	1,785	11,802	1,028	3,974
(169)	(1)	(9,655)	(9,252)	(28,008)	(29,946)	(28,919)	(23,321)	(2,709)	(2,890)	(1,571)	(3,711)
<b>2,360</b>	<b>262</b>	<b>23,985</b>	<b>29,509</b>	<b>68,740</b>	<b>83,430</b>	<b>125,242</b>	<b>127,597</b>	<b>16,324</b>	<b>17,248</b>	<b>10,419</b>	<b>10,962</b>
<b>2,459</b>	<b>269</b>	<b>23,074</b>	<b>29,955</b>	<b>63,873</b>	<b>84,448</b>	<b>113,022</b>	<b>127,825</b>	<b>15,498</b>	<b>16,175</b>	<b>11,010</b>	<b>10,828</b>

# Notes to and forming part of the Financial Statements

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## 11. INTEREST REVENUE

	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO	
	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 2 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
<i>Breakdown by asset classes</i>								
Cash and cash equivalents	749	1,545	7	3	2	-	213	150
<b>TOTAL INTEREST REVENUE</b>	<b>749</b>	<b>1,545</b>	<b>7</b>	<b>3</b>	<b>2</b>	<b>-</b>	<b>213</b>	<b>150</b>

## 12. NET TRADING GAINS/(LOSSES)

	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO	
	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 2 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
Trading portfolio assets – realised	30	-	525	668	-	-	1,454	(2,311)
Derivative instruments – realised	-	-	-	-	-	-	118	986
Realised net trading gains/(losses)	30	-	525	668	-	-	1,572	(1,325)
Trading portfolio assets – unrealised	459	-	3,276	2,176	33	-	2,866	3,855
Derivative instruments – unrealised	-	-	-	-	-	-	(90)	(223)
Unrealised net trading gains/(losses)	459	-	3,276	2,176	33	-	2,776	3,632
<b>TOTAL NET TRADING GAINS/(LOSSES)</b>	<b>489</b>	<b>-</b>	<b>3,801</b>	<b>2,844</b>	<b>33</b>	<b>-</b>	<b>4,348</b>	<b>2,307</b>

## 13. AUDIT AND PROFESSIONAL FEES

	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO	
	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 2 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
<i>Fees to auditors:</i>								
Audit fees	11	7	13	8	1	-	13	4
Other professional fees	(10)	2	1	(1)	-	-	40	(14)
<b>TOTAL AUDIT AND PROFESSIONAL FEES</b>	<b>1</b>	<b>9</b>	<b>14</b>	<b>7</b>	<b>1</b>	<b>-</b>	<b>53</b>	<b>(10)</b>

Audit fees are accrued daily.

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
2	-	22	49	14	63	18	62	8	22	-	1
<b>2</b>	<b>-</b>	<b>22</b>	<b>49</b>	<b>14</b>	<b>63</b>	<b>18</b>	<b>62</b>	<b>8</b>	<b>22</b>	<b>-</b>	<b>1</b>

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
2	-	303	114	(3,191)	2,378	(4,205)	4,163	(236)	(275)	77	(301)
-	-	(351)	(88)	(1,302)	(323)	(2,695)	(563)	-	(84)	-	-
2	-	(48)	26	(4,493)	2,055	(6,900)	3,600	(236)	(359)	77	(301)
42	6	(1,650)	1,614	(1,712)	6,393	(4,948)	9,605	728	2,226	914	973
-	-	(110)	110	(454)	420	(920)	814	34	(1)	-	-
42	6	(1,760)	1,724	(2,166)	6,813	(5,868)	10,419	762	2,225	914	973
<b>44</b>	<b>6</b>	<b>(1,808)</b>	<b>1,750</b>	<b>(6,659)</b>	<b>8,868</b>	<b>(12,768)</b>	<b>14,019</b>	<b>526</b>	<b>1,866</b>	<b>991</b>	<b>672</b>

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
1	1	12	5	11	9	13	9	7	3	4	2
1	(1)	-	1	4	8	11	13	1	(1)	-	-
<b>2</b>	<b>-</b>	<b>12</b>	<b>6</b>	<b>15</b>	<b>17</b>	<b>24</b>	<b>22</b>	<b>8</b>	<b>2</b>	<b>4</b>	<b>2</b>

## Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

### 14. FEES AND REIMBURSABLE EXPENSES

	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO	
	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 2 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
Trustee fees	15	22	22	21	-	-	70	63
Management fees and reimbursable expenses	88	163	619	736	5	-	1,580	1,218
<b>TOTAL FEES AND REIMBURSABLE EXPENSES</b>	<b>103</b>	<b>185</b>	<b>641</b>	<b>757</b>	<b>5</b>	<b>-</b>	<b>1,650</b>	<b>1,281</b>

### 15. PAYABLES

	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO	
	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 2 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
Management fees and reimbursable expenses payables	3	11	53	50	1	-	146	115
Trustee fees payable	1	1	2	2	-	-	3	7
Redemptions payable and unapplied money	67	76	172	88	12	-	293	114
Accruals	11	22	11	15	1	-	11	16
<b>TOTAL PAYABLES</b>	<b>82</b>	<b>110</b>	<b>238</b>	<b>155</b>	<b>14</b>	<b>-</b>	<b>453</b>	<b>252</b>

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
-	-	9	9	25	30	40	36	5	5	4	4
16	1	604	651	1,689	2,035	2,837	2,503	343	335	237	233
<b>16</b>	<b>1</b>	<b>613</b>	<b>660</b>	<b>1,714</b>	<b>2,065</b>	<b>2,877</b>	<b>2,539</b>	<b>348</b>	<b>340</b>	<b>241</b>	<b>237</b>

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000	31/03/11 365 days \$000	31/03/10 365 days \$000
1	-	45	57	127	164	234	260	29	30	9	19
-	-	1	1	2	2	3	4	-	-	-	-
18	-	25	133	12	-	92	56	1	7	-	-
1	-	8	7	11	20	12	24	5	5	4	5
<b>20</b>	<b>-</b>	<b>79</b>	<b>198</b>	<b>152</b>	<b>186</b>	<b>341</b>	<b>344</b>	<b>35</b>	<b>42</b>	<b>13</b>	<b>24</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

## 16. DERIVATIVE INSTRUMENTS

### Overview

A derivative is a financial instrument, the value of which is derived from the value of another financial instrument, an index, or some other variables. Typically, the underlying instrument is a share, commodity, bond price, currency, or an index value of an exchange or interest rate.

The majority of derivative contracts are negotiated as an amount (notional), maturity and price between the Manager and their counterparties, which are major banks offering professional financial services (over-the-counter contracts). The rest of the derivative contracts are standardised in terms of their amounts and settlement dates, and are bought and sold on regulated markets (exchange-traded contracts).

The notional amount of a derivative is generally the quantity of the underlying instrument on which the derivative contract is based, and is the basis upon which changes in the value of the contract are measured. The amount disclosed as notional is the combined absolute total of long and short position contracts. It provides an indication of the underlying volume of business transacted by the Portfolios, but does not provide any measure of risk.

Derivative instruments are carried at fair value, based on quoted market prices for exchange traded contracts or valuation techniques, applying market observable inputs for over-the-counter ("OTC") contracts.

### Types of derivative instruments

Forwards are contractual obligations to buy or sell financial instruments on a future date at a specified price. Foreign exchange forward contracts are tailor-made agreements that are entered into between counterparties on the OTC market in order to hedge against foreign currency movement. Futures, on the other hand, are standardised contracts purchased in regulated exchanges with major exchange-traded indices as the underlying securities.

The following table sets out the notional amounts of the derivative contracts and the associated derivative assets and liabilities as disclosed on the Balance Sheet.

	MONEY MARKET PORTFOLIO			CORE INCOME PORTFOLIO			INTERNATIONAL INCOME PORTFOLIO			MID TERM GROWTH PORTFOLIO			GLOBAL PROPERTY PORTFOLIO		
	NOTIONAL \$000	ASSETS \$000	LIABILITIES \$000	NOTIONAL \$000	ASSETS \$000	LIABILITIES \$000	NOTIONAL \$000	ASSETS \$000	LIABILITIES \$000	NOTIONAL \$000	ASSETS \$000	LIABILITIES \$000	NOTIONAL \$000	ASSETS \$000	LIABILITIES \$000
<b>31/03/11</b>															
<i>Directly held derivatives</i>															
Volatility index futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>31/03/10</b>															
<i>Directly held derivatives</i>															
Volatility index futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange forwards	-	-	-	-	-	-	-	-	4,062	90	-	-	-	-	-
	-	-	-	-	-	-	-	-	<b>4,062</b>	<b>90</b>	-	-	-	-	-



# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

## 17. TAXATION

### Portfolio investment regime

All the Portfolios, except for International Income Portfolio, were Portfolio Investment Entities ("PIEs") either from 1 October 2007 or from the date of their commencement, whichever was later. International Income Portfolio elected into the PIE regime from 1 April 2010. For the period of these accounts, all the Portfolios have maintained their status as PIEs.

### Formation losses

The Mid Term Growth Portfolio had formation losses available in the 2011 financial year. The formation losses for this Portfolio were spread over 1,095 days (commencing 1 October 2007 and ending on 30 September 2010), and are used to reduce taxable income. Any formation losses remaining on 1 October 2010 can be fully offset against any taxable income arising. Unused daily formation losses are rolled forward to subsequent days.

The opening and closing balances of formation losses, and losses used during the year are detailed below.

FORMATION LOSSES	OPENING BALANCE 01/04/10 \$000	LOSSES USED \$000	CLOSING BALANCE 31/03/11 \$000	OPENING BALANCE 01/04/09 \$000	LOSSES USED \$000	CLOSING BALANCE 31/03/10 \$000
Mid Term Growth Portfolios	45,907	(12,999)	32,908	52,825	(6,918)	45,907

### Income tax expense and deferred tax

Income tax expense is not recognised in the Portfolios, as the tax liability arising on income allocated to investors is satisfied by cancellation of units or transference to investors. As a consequence, deferred tax is also not recognised.

### Rated unitholders' tax assets and liabilities

For the 31 March quarter, the following net amounts were due to be paid to/(rebated by) Inland Revenue in respect to investors with a Prescribed Investor Rate greater than zero.

RATED UNITHOLDERS' TAX ASSETS/(LIABILITIES)	31/03/11 \$000	31/03/10 \$000
Money Market Portfolio	(48)	54
Core Income Portfolio	(50)	79
International Income Portfolio	(4)	n/a
Mid Term Growth Portfolio	553	(266)
Global Property Portfolio	2	(1)
Balanced Growth Portfolio	7	(49)
Diversified Growth Portfolio	14	(136)
Wealth Appreciation Portfolio	53	(172)
Dividend Yield Portfolio	37	(43)
Credit Opportunities Portfolio	(13)	37

## 18. RELATED PARTY

New Zealand Funds Management Limited ("NZ Funds Management") is the Manager, Issuer and Promoter of the Portfolios contained in this report. New Zealand Administration Services Limited is the Administration Manager and is a wholly owned subsidiary of NZ Funds Management.

Both NZ Funds Management and the Administration Manager are ultimately owned by interests associated with the senior management of NZ Funds Management. The senior management includes the 15 Principals of NZ Funds Management.

The Portfolios contained in this report may invest into New Zealand unit trusts ("NZFS trusts") managed by NZ Funds Management, of which New Zealand Funds Superannuation Limited is the Trustee, and Australian unit trusts ("GISL trusts") where NZ Funds Management is the investment manager, of which Global Investment Services Limited is the Trustee. New Zealand Funds Superannuation Limited is a wholly owned subsidiary of NZ Funds Management. Global Investment Services Limited is owned by interests associated with the senior management of NZ Funds Management.

The gross value of investment transactions (including reinvested distributions) in the GISL trusts for the year ended 31 March 2011 and the period ended 31 March 2010 and the balance of investments as at those dates are detailed in Table 1 as follows:

TABLE 1	PURCHASES		REDEMPTIONS		BALANCE OF INVESTMENTS	
	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
Money Market Portfolio	-	-	-	-	-	-
Core Income Portfolio	-	-	-	-	-	-
International Income Portfolio	-	-	-	-	-	-
Mid Term Growth Portfolio	22,166	17,632	(5,695)	(24,532)	24,329	6,601
Global Property Portfolio	-	-	-	-	-	-
Balanced Growth Portfolio	4,177	31,647	(4,400)	(34,822)	8,151	10,376
Diversified Growth Portfolio	14,598	74,134	(12,345)	(96,320)	21,808	26,827
Wealth Appreciation Portfolio	25,264	103,114	(15,923)	(110,710)	39,657	42,865
Dividend Yield Portfolio	-	7,033	-	(7,037)	-	-
Credit Opportunities Portfolio	-	-	-	-	-	-

The gross value of investment transactions in the NZFS trusts for the year ended 31 March 2011 and the period ended 31 March 2010 and the balance of investments as at those dates are detailed in Table 2 as follows:

TABLE 2	PURCHASES		REDEMPTIONS		BALANCE OF INVESTMENTS	
	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
Money Market Portfolio	42,250	-	(4,820)	-	37,920	-
Core Income Portfolio	7,150	40,304	(7,587)	(35,764)	65,281	62,166
International Income Portfolio	1,842	-	(255)	-	1,620	-
Mid Term Growth Portfolio	35,281	34,156	(16,700)	(16,710)	66,471	44,947
Global Property Portfolio	2,040	230	(140)	-	2,179	235
Balanced Growth Portfolio	4,695	24,507	(10,258)	(8,686)	13,730	18,639
Diversified Growth Portfolio	6,460	62,531	(23,068)	(17,407)	41,743	56,582
Wealth Appreciation Portfolio	16,892	81,760	(31,528)	(11,444)	72,772	84,012
Dividend Yield Portfolio	350	10,025	(2,765)	(2,594)	14,576	16,017
Credit Opportunities Portfolio	355	12,545	(1,117)	(4,242)	10,999	10,830

Certain Portfolios contained in Table 2 above invest in the Private Loan Trust, which invests in Fidelity Limited by way of loans. Fidelity Limited is a company that is partially owned by shareholders of NZ Funds Management. The Portfolios' holdings in the Private Loan Trust are recorded at fair value. Private Loan Trust, in valuing its loan to Fidelity Limited, has made an allowance for net present value adjustment in accordance with NZ IFRS. The gross value of investment transactions into Private Loan Trust for the year ended 31 March 2011 and the period ended 31 March 2010 and the balance of investments as at those dates are shown below. The figures in Table 2a are extracted from Table 2 above.

TABLE 2A	PURCHASES		REDEMPTIONS		BALANCE OF INVESTMENTS	
	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
Money Market Portfolio	-	-	-	-	-	-
Core Income Portfolio	-	-	-	(1,400)	668	1,074
International Income Portfolio	-	-	-	-	-	-
Mid Term Growth Portfolio	-	500	-	-	716	1,149
Global Property Portfolio	-	-	-	-	-	-
Balanced Growth Portfolio	-	-	-	(100)	246	395
Diversified Growth Portfolio	-	50	-	(400)	894	1,439
Wealth Appreciation Portfolio	-	1,350	-	-	1,429	2,294
Dividend Yield Portfolio	-	-	-	-	-	-
Credit Opportunities Portfolio	-	-	-	-	-	-

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

## 18. RELATED PARTY (CONTINUED)

During the year, the Portfolios incurred management fees (including performance fees if any) and expense reimbursements in accordance with the Trust Deeds, which were payable to NZ Funds Management. The management fees, expense reimbursements and Manager rebates incurred during the financial year, and the amounts outstanding as at 31 March 2011 are payable on normal trading terms. These are detailed in Table 3 below.

Where a Portfolio, during the period for which The New Zealand Guardian Trust Company Limited was the Trustee, invested in GISL trusts or NZFS trusts, it was the practice of NZ Funds Management, to rebate any fees and expense reimbursements charged to these underlying trusts to eliminate double charging of fees and expenses. Where a Portfolio, for which Perpetual Trust Limited is the Trustee, invests into Private Loan Trust, it is the current practice of NZ Funds Management to rebate any of the management fees on the Portfolio's investment in Private Loan Trust.

	MONEY MARKET PORTFOLIO		CORE INCOME PORTFOLIO		INTERNATIONAL INCOME PORTFOLIO		MID TERM GROWTH PORTFOLIO	
	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
<b>TABLE 3</b>								
Management fees incurred	55	93	519	591	5	-	1,421	1,007
Expense reimbursements incurred	33	70	106	158	-	-	396	396
Manager rebates incurred	-	-	(6)	(13)	-	-	(237)	(185)
Net amounts payable to Manager as at Balance Date	3	11	53	50	1	-	146	115

The Balanced Growth Portfolio, Diversified Growth Portfolio, Wealth Appreciation Portfolio and Credit Opportunities Portfolio may be charged a performance fee by the Manager if the annual performance target is met for the financial year. As described in note 3(p), *Significant accounting policies*, performance fees (if any) are accrued in the Portfolio daily and paid to the Manager quarterly during the financial year. If the annual performance target is not achieved at the end of the financial year, the Portfolio is due a refund from the Manager for the performance fees paid during the financial year. Performance fees incurred during the year, payable to/receivable from the Manager as at balance date are shown below. The figures in Table 3a are extracted from Table 3 above.

	BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
<b>TABLE 3A</b>								
Performance fees incurred	-	-	-	-	-	-	-	-
Performance fees payable to Manager as at Balance Date	-	-	-	-	-	-	-	-
Performance fees refundable from Manager as at Balance Date	-	-	-	-	-	-	11	-

No related party debts were forgiven or written off during the year (2010: nil).

PAN Systems Limited, a wholly owned subsidiary of NZ Funds Management, shares in monitoring and implementation fees paid by investors to their advisors. Payment of such fees is facilitated by way of redemption of units from investors. The Portfolios do not incur these costs. Total fees received by PAN Systems Limited paid by investors are \$268,717 for the year ended 31 March 2011 (2010: \$213,046).

GLOBAL PROPERTY PORTFOLIO		BALANCED GROWTH PORTFOLIO		DIVERSIFIED GROWTH PORTFOLIO		WEALTH APPRECIATION PORTFOLIO		DIVIDEND YIELD PORTFOLIO		CREDIT OPPORTUNITIES PORTFOLIO	
31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
18	1	471	458	1,275	1,476	2,080	1,802	277	258	197	194
(2)	-	142	202	445	599	807	745	66	77	40	39
-	-	(9)	(9)	(31)	(40)	(50)	(44)	-	-	-	-
1	-	45	57	127	164	234	260	29	30	9	19

The Portfolios do not employ key management personnel. Management services are provided by NZ Funds Management. The following is a summary of significant investment transactions in the Portfolios by key management personnel employed by NZ Funds Management. Included in Table 4 below, NZ Funds Management has an investment of \$269,805 in the Money Market Portfolio (2010: \$262,761) as at balance date, with no investment transactions for the year (2010: nil).

TABLE 4	BALANCE OF HOLDINGS		NET PURCHASES (REDEMPTIONS)	
	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
Money Market Portfolio	1,892	2,523	(693)	(3,551)
Core Income Portfolio	175	-	171	(144)
International Income Portfolio	-	-	-	-
Mid Term Growth Portfolio	271	314	(55)	(173)
Global Property Portfolio	-	-	-	-
Balanced Growth Portfolio	-	-	-	-
Diversified Growth Portfolio	22	52	(24)	45
Wealth Appreciation Portfolio	245	166	104	95
Dividend Yield Portfolio	204	198	3	159
Credit Opportunities Portfolio	44	-	41	(40)

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2011

## 19. TRUSTEES

Perpetual Trust Limited is the Trustee of Money Market Portfolio, Core Income Portfolio, International Income Portfolio, Global Property Portfolio, Balanced Growth Portfolio, Diversified Growth Portfolio, Wealth Appreciation Portfolio, Dividend Yield Portfolio and Credit Opportunities Portfolio. On 22 December 2010, The New Zealand Guardian Trust Company Limited retired as the Trustee of the Mid Term Growth Portfolio, and Perpetual Trust Limited was appointed the Trustee. The trustee fees incurred and outstanding as at 31 March 2011 and 31 March 2010 are as follows:

	TRUSTEE FEES			
	INCURRED		PAYABLE	
	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
Money Market Portfolio	15	22	1	1
Core Income Portfolio	22	21	2	2
International Income Portfolio	-	-	-	-
Mid Term Growth Portfolio	70	63	3	7
Global Property Portfolio	-	-	-	-
Balanced Growth Portfolio	9	9	1	1
Diversified Growth Portfolio	25	30	2	2
Wealth Appreciation Portfolio	40	36	3	4
Dividend Yield Portfolio	5	5	-	-
Credit Opportunities Portfolio	4	4	-	-

## 20. GUARANTEES

During the year, guarantees were executed by the Perpetual Trust Limited in its capacity as the Trustee of the Balanced Growth Portfolio, Diversified Growth Portfolio and Wealth Appreciation Portfolio and NZ Funds Management in its capacity as the Manager of the respective Portfolios, in favour of Citibank, N.A. and Citigroup Global Markets Limited, guaranteeing the liabilities and obligations of these Portfolios' respective investments in certain GISL Trusts. Note 7 *Trading portfolio assets* and note 8 *Financial instrument and risk management* include the underlying financial instruments which are the subject of the guarantees.

## 21. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

No significant capital commitments or contingent liabilities exist as at 31 March 2011 (31 March 2010: nil) for any of the Portfolios.

## 22. CONCENTRATION OF FUNDING

The Portfolios are funded by the issue of units to unitholders, predominantly in New Zealand. The following types of entities have the following interests in Unitholders' Funds:

	INDIVIDUALS		OTHER INVESTORS	
	31/03/11 \$000	31/03/10 \$000	31/03/11 \$000	31/03/10 \$000
Money Market Portfolio	13,788	19,511	24,260	30,584
Core Income Portfolio	22,308	20,510	43,069	41,626
International Income Portfolio	1,053	-	1,310	-
Mid Term Growth Portfolio	30,723	20,566	61,125	45,251
Global Property Portfolio	771	13	1,688	256
Balanced Growth Portfolio	10,839	13,626	12,235	16,329
Diversified Growth Portfolio	19,569	25,256	44,304	59,192
Wealth Appreciation Portfolio	33,293	38,682	79,729	89,143
Dividend Yield Portfolio	5,317	5,697	10,181	10,478
Credit Opportunities Portfolio	3,252	3,241	7,758	7,589

Other investors comprise companies, trusts, partnerships and estates.

All units issued in each Portfolio are ranked equally with respect to any voting rights and rights to surpluses and distributions.

# Directory

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