

Manager insight – 30 June 2009

It is often noted that share markets are forward looking and share prices reflect the consensus views of the market. Consensus views tend to slowly evolve as economic or financial indicators either confirm or refute the previous consensus view. It is predominantly for this reason that share markets tend to trend, giving rise to so-called 'bull' or 'bear' markets.

These trends cannot be seen in the day-to-day movements of share markets but can be identified over longer term time periods. One of the most reliable ways of identifying trends is to compare the current level of the market to its average level over the past (say) 10 months. When the current market is above this average level it is said to be in an uptrend, while if it is below it is said to be in a downtrend. This analysis has been used by investors since the 1930s.

The Growth Portfolios use a similar methodology in their share hedging strategy. This means that the manager does not attempt to forecast markets or assess whether the current consensus view is correct. Instead, it is accepted that markets trend and the Growth Portfolios are positioned to take advantage of the identified trend. The decision whether to implement the share hedges is highly mechanistic and does not include subjective judgement. This removes the possibility of the manager being swayed by the current sentiment of the market.

In developing the share hedging strategy, daily share market movements for the past 80 years were analysed. This analysis highlighted that the strategy was very successful when the market was clearly trending, but gave false signals when the market was directionless. Over time the cost of these false signals was more than offset by the benefits of the strategy.

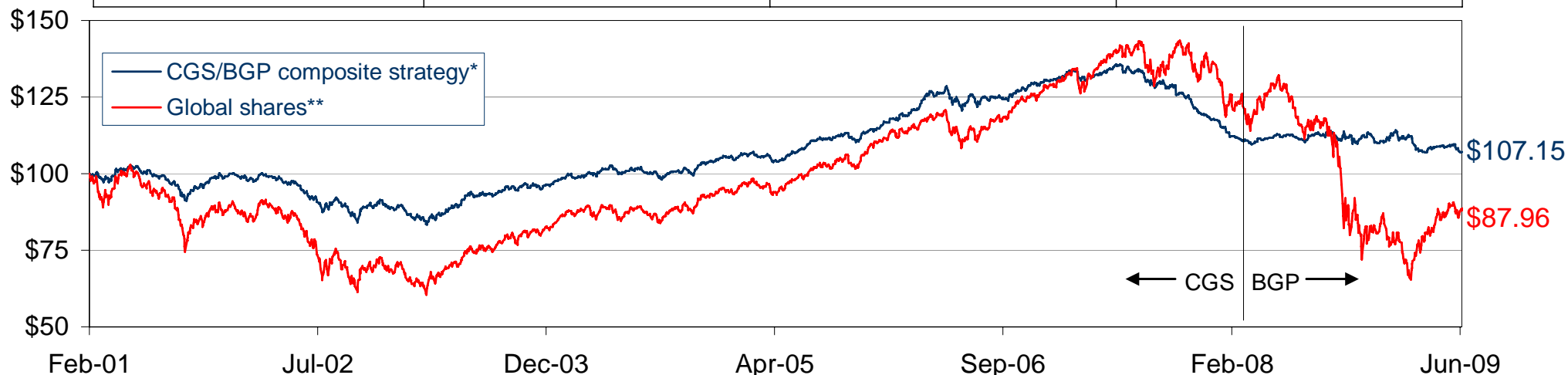
Since March 2009 global share markets have rallied strongly, reflecting the consensus view that the market had become oversold and the global economy was slowly recovering or at the very least not getting any worse. Recognising this trend, the share hedges were partly removed on 19 March. Share markets continued to appreciate and in early June the share hedges were fully removed. Since then there have been a couple of false signals as the share hedges have come back on and then been removed. The number of false signals is, however, consistent with the past analysis.

A trendless market around turning points is not unusual as the consensus view switches between growth or recession like a girl playing 'he loves me, he loves me not'. Irrespective of the final decision, the share hedging strategy ensures the Growth Portfolios are correctly positioned when the next inevitable trend emerges.

Balanced Growth Portfolio

Performance to 30 June 2009 for CGS/BGP composite strategy*

BGP performance attribution	One month	Three month	Six month
Positive	Managers	Cash; bonds	Cash; bonds; hedge
Neutral	Bonds; currency	n/a	n/a
Negative	Global shares	Global shares; currency	Global shares; currency



BGP return One-month	BGP return Three-month	BGP return Six-month	BGP return One-year	Composite strategy return Since inception pa
-1.79%	-0.20%	-3.11%	-3.99%	0.83%

Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.
 *Conservative Growth Strategy (CGS) data from 20 Feb 01 to 28 Feb 08. Balanced Growth Portfolio (BGP) data from 28 Feb 08 to 30 Jun 09. **Source: Bloomberg. Global shares represented by MSCI World Index in local currency. The asset class index in the chart (MSCI World Index) is not for benchmarking purposes but rather to demonstrate the performance of the largest asset class allocation in the Portfolio.

Balanced Growth Portfolio

Portfolio summary as at 30 June 2009

Portfolio summary

Income strategies (before share hedge)	66%
Growth strategies (before share hedge)	34%

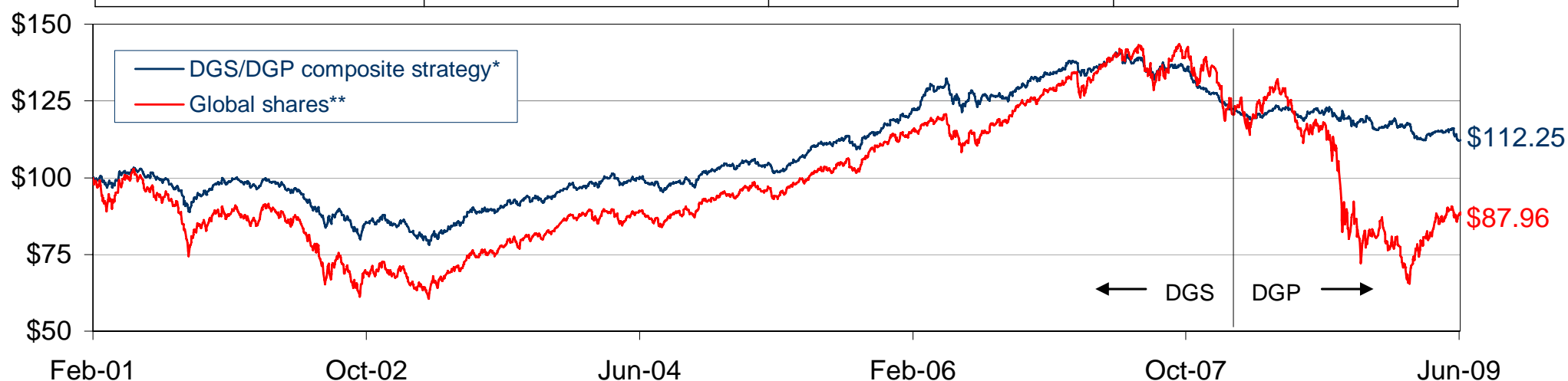
Strategy	Manager	Asset class	Proportion of portfolio
Income strategies			50%
Money market	NZ Funds	Cash	26%
Government bonds	NZ Funds	NZ government bonds	18%
Loans (via Private Loan Trust)	NZ Funds	NZ direct loans	3%
Corporate bonds	NZ Funds	Global corporate bonds	19%
Share hedge*	NZ Funds	Cash	-16%
Growth strategies			50%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	7%
Global shares – High dividend yield	Tweedy Browne	Global shares	12%
Global shares – Growth	T Rowe Price	Global shares	9%
Global shares – Defensive	Odey	Global shares	5%
Global absolute return	Multiple managers	Equity strategies	1%
Share hedge**	NZ Funds	Global shares	16%
Total			100%
Return enhancement			0%
Currency	NZ Funds	NZ dollar/US dollar	0%

*The effect of the share hedge is to reduce the investment in cash and increase the allocation to shares when the Portfolio is unhedged. **The share hedge applies to all of the growth strategies. Note: Rounding may affect the subtotals and totals.

Diversified Growth Portfolio

Performance to 30 June 2009 for DGS/DGP composite strategy*

DGP performance attribution	One month	Three month	Six month
Positive	Managers	-	-
Neutral	Bonds; currency	-	-
Negative	Global shares	-	-



DGP return One-month	DGP return Three-month	DGP return Six-month	DGP return One-year	Composite strategy return Since inception pa
-2.64%	-0.21%	-3.51%	-6.82%	1.39%

Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.
 *Diversified Growth Strategy (DGS) data from 20 Feb 01 to 28 Feb 08. Diversified Growth Portfolio (DGP) data from 28 Feb 08 to 30 Jun 09. **Source: Bloomberg. Global shares represented by MSCI World Index in local currency. The asset class index in the chart (MSCI World Index) is not for benchmarking purposes but rather to demonstrate the performance of the largest asset class allocation in the Portfolio.

Diversified Growth Portfolio

Portfolio summary as at 30 June 2009

Portfolio summary

Income strategies (before share hedge)	57%
Growth strategies (before share hedge)	43%

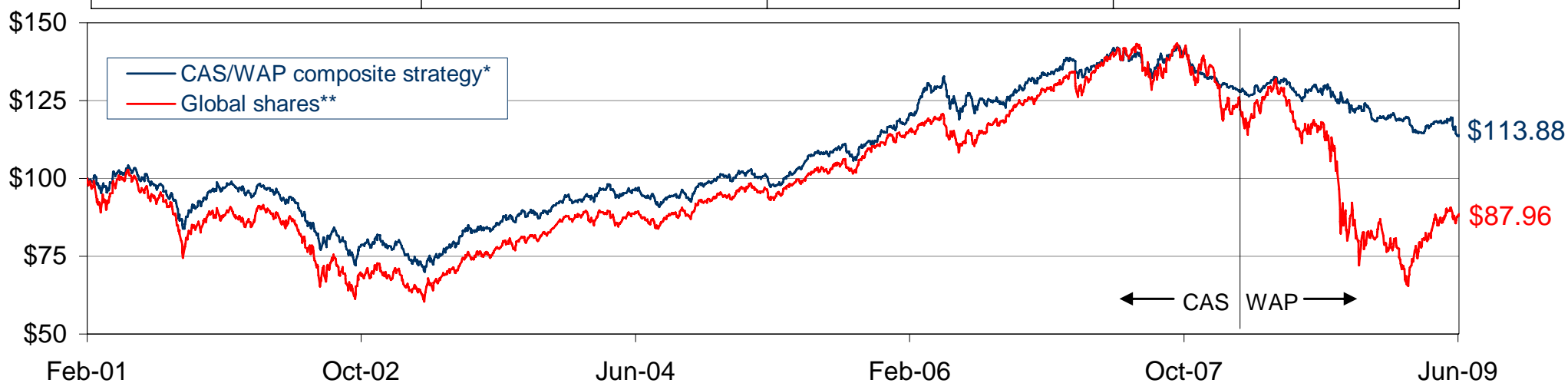
Strategy	Manager	Asset class	Proportion of portfolio
Income strategies			31%
Money market	NZ Funds	Cash	18%
Government bonds	NZ Funds	NZ government bonds	17%
Loans (via Private Loan Trust)	NZ Funds	NZ direct loans	3%
Corporate bonds	NZ Funds	Global corporate bonds	19%
Share hedge*	NZ Funds	Cash	-26%
Growth strategies			69%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	11%
Global shares – High dividend yield	Tweedy Browne	Global shares	13%
Global shares – Growth	T Rowe Price	Global shares	11%
Global shares – Defensive	Odey	Global shares	7%
Global absolute return	Multiple managers	Equity strategies	1%
Share hedge**	NZ Funds	Global shares	26%
Total			100%
Return enhancement			0%
Currency	NZ Funds	NZ dollar/US dollar	0%

*The effect of the share hedge is to reduce the investment in cash and increase the allocation to shares when the Portfolio is unhedged. **The share hedge applies to all of the growth strategies. Note: Rounding may affect the subtotals and totals.

Wealth Appreciation Portfolio

Performance to 30 June 2009 for CAS/WAP composite strategy*

WAP performance attribution	One month	Three month	Six month
Positive	Managers	-	-
Neutral	Bonds; currency	-	-
Negative	Global shares	-	-



WAP return One-month	WAP return Three-month	WAP return Six-month	WAP return One-year	Composite strategy return Since inception pa
-3.84%	-0.59%	-4.63%	-10.86%	1.57%

Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns. *Capital Appreciation Strategy (CAS) data from 20 Feb 01 to 28 Feb 08. Wealth Appreciation Portfolio (WAP) data from 28 Feb 08 to 30 Jun 09. **Source: Bloomberg. Global shares represented by MSCI World Index in local currency. The asset class index in the chart (MSCI World Index) is not for benchmarking purposes but rather to demonstrate the performance of the largest asset class allocation in the Portfolio.

Wealth Appreciation Portfolio

Portfolio summary as a 30 June 2009

Portfolio summary

Income strategies (before share hedge)	48%
Growth strategies (before share hedge)	52%

Strategy	Manager	Asset class	Proportion of portfolio
Income strategies			10%
Money market	NZ Funds	Cash	12%
Government bonds	NZ Funds	NZ government bonds	15%
Loans (via Private Loan Trust)	NZ Funds	NZ direct loans	3%
Corporate bonds	NZ Funds	Global corporate bonds	18%
Share hedge*	NZ Funds	Cash	-38%
Growth strategies			90%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	14%
Global shares – High dividend yield	Tweedy Browne	Global shares	17%
Global shares – Growth	T Rowe Price	Global shares	13%
Global shares – Defensive	Odey	Global shares	7%
Global absolute return	Multiple managers	Equity strategies	1%
Share hedge**	NZ Funds	Global shares	38%
Total			100%
Return enhancement			0%
Currency	NZ Funds	NZ dollar/US dollar	0%

*The effect of the share hedge is to reduce the investment in cash and increase the allocation to shares when the Portfolio is unhedged. **The share hedge applies to all of the growth strategies. Note: Rounding may affect the subtotals and totals.

For further information or to request a copy of the relevant Investment Statement, please contact New Zealand Funds Management Limited.

Past performance is not necessarily an indication of future returns.

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