

## MANAGER INSIGHT – 30 JUNE 2010

The objective of the Growth Portfolios is to grow clients' capital and in doing so, provide for their future needs. Over the past month the Portfolios returned between -1.97% to -0.16%<sup>1</sup> and are currently defensively positioned.

### Strategy insight: Futures contracts

The Growth Portfolios use futures contracts to either take a position in an underlying security or asset class, or to reduce the risk of a security or asset class. Currently, futures contracts are held to insulate the Portfolios from declines in share markets. Futures contracts are one of the oldest financial instruments and predate many other financial instruments including government securities and shares.

In around 384BC, Aristotle credited Thales of Miletus (who lived between 620BC to 546BC) of creating the first futures contract. Believing that the upcoming olive harvest would be plentiful, Thales entered into agreements with the owners of all the olive oil presses in the region. In exchange for a small deposit months ahead of the harvest, Thales obtained the right to lease the presses at a predetermined price. As it turned out, Thales was correct about the harvest, demand for oil presses increased, and he was able to sub-lease the presses at a higher price. In the Middle Ages, futures contracts were common at trade fairs. Travelling with large quantities of goods was both dangerous and impractical. Instead, traders travelled with trade samples and sold futures for larger quantities to be delivered at a later date.

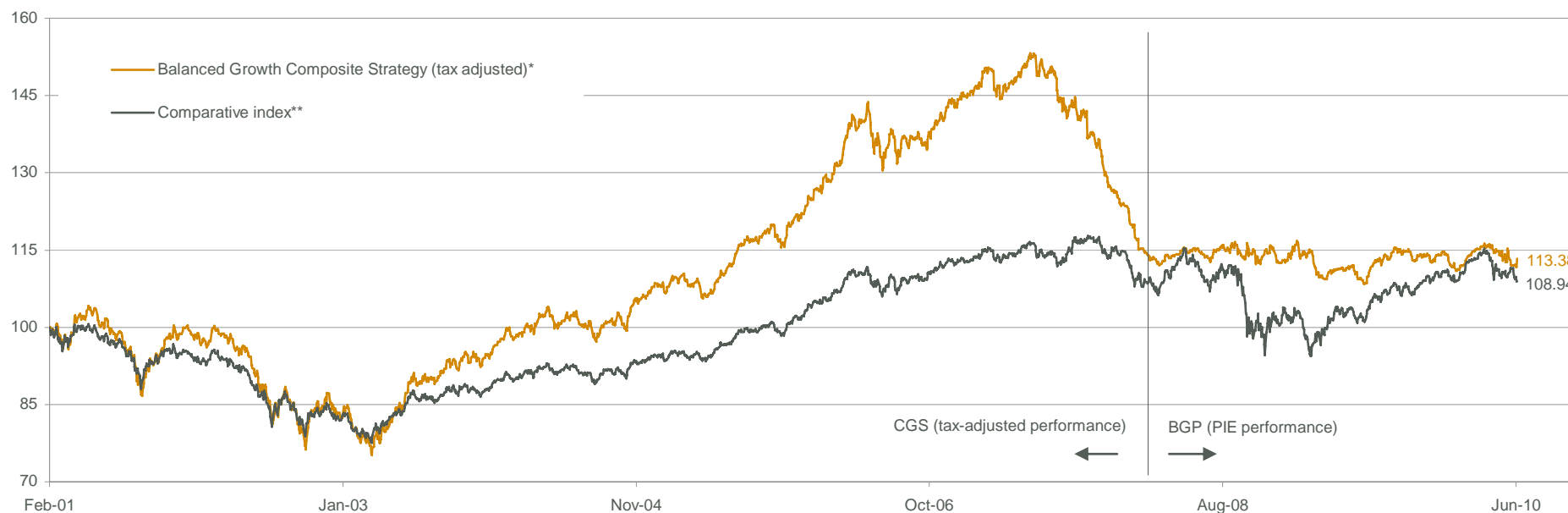
The first modern organised futures exchange began in 1710 at the Dojima Rice exchange in Osaka, Japan. The United States followed in 1848 when the Chicago Board of Trade was formed. Initially, most of the futures contracts were agricultural-based. However, in the 1970s, when the United States started moving away from the gold standard, Milton Friedman wanted to sell the United States Dollar forward as he expected it to fall. He found that he wasn't able to, so he suggested that financial futures contracts be established. Consequently, in 1972, the Chicago Mercantile Exchange introduced future contracts on foreign currencies. These were quickly adopted by the financial community and other financial futures, including futures on share market indices, were introduced. Today, while agriculture commodities are still traded, the majority of futures contracts traded are financial in nature.

To provide the Growth Portfolios with some protection from declines in share markets, futures contracts on the S&P 500, Euro Stoxx 50, FTSE 100 and the Nikkei 225 are sold. These futures contracts settle up to three months in the future, but are priced at a similar level to the current prevailing index. By selling these contracts today, the Growth Portfolios are locking in this price. If share indices fall then profits are made on the futures contracts which offset the losses that occur on the physical share investments held in the Portfolios. However, the physical shares are managed by active managers whose job it is to get a better return than the share indices. Consequently, it is possible to still get positive returns from the share component of the Portfolios even if global share markets decline.

<sup>1</sup> Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

## TAX-ADJUSTED PERFORMANCE TO 30 JUNE 2010 FOR BALANCED GROWTH COMPOSITE STRATEGY\* (PART 1)

BGP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	Manager performance; bonds	Bonds	Manager performance; bonds
Neutral	Cash; commodities	Cash; currency	Cash; currency
Negative	Global shares; currency	Shares	Shares; commodities



COMPARISON	BGP 1 MONTH	BGP 3 MONTH	BGP 6 MONTH	BGP 1 YEAR	BGP 2 YEAR PA	COMPOSITE 5 YEAR PA	COMPOSITE 7 YEAR PA	COMPOSITE SINCE INCEPTION <sup>1</sup>	COMPOSITE MAXIMUM DRAWDOWN <sup>x</sup>
Balanced Growth Composite Strategy*	-0.16%	-1.58%	-0.51%	3.51%	-0.31%	0.18%	3.49%	13.38%	-29.24%
Comparative index**	-1.53%	-3.89%	-0.81%	6.71%	-0.49%	2.29%	3.48%	8.94%	-22.91%

<sup>1</sup> Pre-tax equivalent gross return. IMPORTANT: Please refer to the slide that follows for the footnotes relating to this slide.

## TAX-ADJUSTED PERFORMANCE TO 30 JUNE 2010 FOR BALANCED GROWTH COMPOSITE STRATEGY\* (PART 2)

**Tax-adjusted Performance**

- \* The Balanced Growth Composite Strategy is a tax-adjusted composite strategy stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

**Balanced Growth Composite Strategy**

The Balanced Growth Composite Strategy is made up of the Conservative Growth Strategy (CGS) from 20 February 2001 to 28 February 2008, and the Balanced Growth Portfolio (BGP) from 28 February 2008 onwards.

CGS was established as an Australian Unit Trust. BGP is a PIE. The tax-adjusted composite strategy is designed to remove, as much as possible, the impact of the different tax regimes that applied during the calculation period. By doing so it enables the returns from CGS and BGP to be represented in a substantially consistent manner without tax distortions.

The Balanced Growth Composite Strategy covers four different tax regimes, and accordingly the use of different calculation methods is necessary to remove the impact of the various regimes. These are:

i) The period to 30 September 2005. Australian Unit Trust returns were generally not taxable to investors, and to provide a comparison the returns have been grossed up by 33% to reflect that actual returns were after tax.

ii) The period from 1 October 2005 to 31 March 2007. Investors were only taxable on distributions made by Australian Unit Trusts. The returns have therefore been grossed up by 33% and adjusted for any tax payable on distributions made.

iii) The period from 1 April 2007 to 28 February 2008. Australian Unit Trust holdings were subject to the Fair Dividend Rate regime. The returns have been grossed up by the tax amount payable under the Fair Dividend Rate regime.

iv) The period from 28 February 2008. PIE returns are reported gross of tax, and as such no adjustment has been made to returns attributable to BGP.

This calculation is undertaken for comparative purposes only, and should not be confused with the portfolio return generated from either CGS or BGP. More details on these calculations, together with the formulae used, are available on request from New Zealand Funds Management.

## TAX-ADJUSTED PERFORMANCE TO 30 JUNE 2010 FOR BALANCED GROWTH COMPOSITE STRATEGY\* (PART 3)

### Comparative Index

\*\* The comparative index is made up of 25% MSCI World Index (hedged), 25% MSCI World Index (unhedged) and 50% New Zealand Government Bond Index. All index figures are sourced from Bloomberg. A fee of 1.75% pa has been deducted to reflect the cost of obtaining a passive global share market exposure using an Exchange Traded Fund, the brokerage associated with purchasing it, the cost of hedging part of this exposure, and the spread on government bonds. The comparative index is stated on a pre-tax basis.

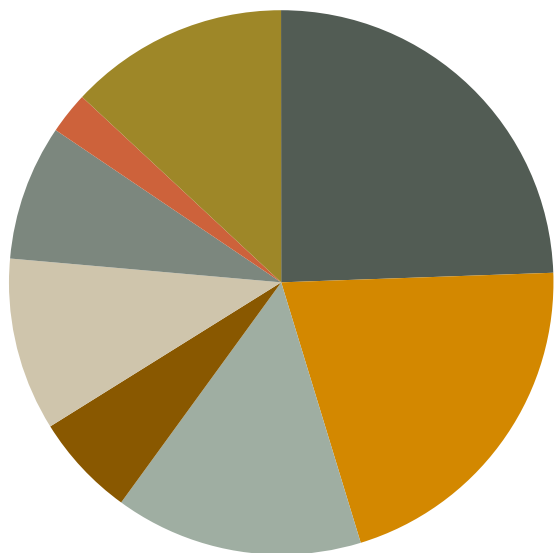
### Maximum Drawdown

x Returns should be looked at in conjunction with the level of risk associated with an investment. For this reason, the 'maximum drawdown' is included for both the strategy and the comparison. The maximum drawdown is a measure of volatility and represents the largest decline in value experienced during the reporting period.

\* The Balanced Growth Composite Strategy is a tax-adjusted composite strategy stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

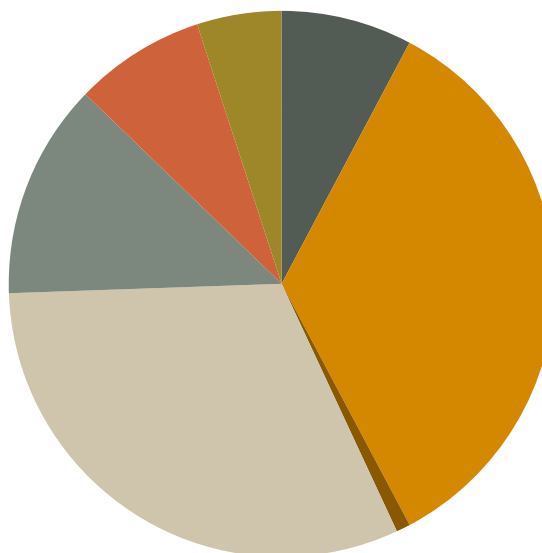
ASSET ALLOCATION (%)

January 2009



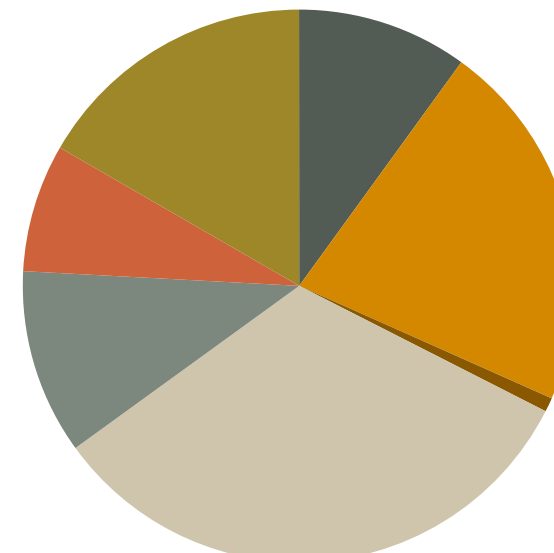
● CASH	28
● GOVERNMENT BONDS	24
● CORPORATE BONDS	17
● LOANS	7
● GLOBAL SHARES (HEDGED)	12
● AUSTRALASIAN SHARES (HEDGED)	9
● ABSOLUTE RETURN STRATEGIES	3
● CURRENCY STRATEGIES	15
TOTAL	115

January 2010



● CASH	8
● GOVERNMENT BONDS	35
● LOANS	1
● GLOBAL SHARES (UNHEDGED)	32
● AUSTRALASIAN SHARES (UNHEDGED)	13
● ABSOLUTE RETURN STRATEGIES	8
● CURRENCY STRATEGIES	5
TOTAL	102

June 2010



● CASH	12
● GOVERNMENT BONDS	26
● LOANS	1
● GLOBAL SHARES (HEDGED)	39
● AUSTRALASIAN SHARES (HEDGED)	13
● ABSOLUTE RETURN STRATEGIES	9
● CURRENCY STRATEGIES	20
TOTAL	120

## COMPLETE PORTFOLIO AS AT 29 JUNE 2010

## PORTFOLIO SUMMARY

Yield <sup>1</sup>	4.6%
Income strategies	95%
Growth strategies	5%
Currency strategies	20%
Total economic exposure	120%

STRATEGY / SECURITY	MANAGER	ASSET CLASS	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	YIELD
<b>INCOME STRATEGIES</b>				<b>94.6%</b>	
Bank deposits / Bank bills	NZ Funds	Cash	\$3,250,759	11.8%	2.6%
Global shares hedge	NZ Funds	Cash	\$15,206,940	55.2%	4.9%
United States government bonds	NZ Funds	Government bonds	\$1,560,849	5.7%	5.7%
Australian government bonds	NZ Funds	Government bonds	\$1,501,652	5.5%	3.5%
German government bonds	NZ Funds	Government bonds	\$1,481,420	5.4%	5.2%
United Kingdom government bonds	NZ Funds	Government bonds	\$1,440,207	5.2%	5.9%
New Zealand government bonds	NZ Funds	Government bonds	\$1,224,401	4.4%	5.4%
Loans (via Private Loan Trust)	Fidelity	New Zealand direct loans	\$395,075	1.4%	7.6%
Global government bonds – Futures	NZ Funds	Government bonds	\$0	0.0%	2.5%
<b>GROWTH STRATEGIES</b>				<b>5.4%</b>	
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$3,636,442	13.2%	7.2%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$2,865,076	10.4%	7.4%
Global shares – Growth	T Rowe Price	Global shares	\$2,837,527	10.3%	5.2%
Global shares – Defensive	Platinum	Global shares	\$2,534,490	9.2%	2.3%
Global shares – Active	Odey	Global shares	\$2,451,844	8.9%	4.5%
Absolute returns – Opportunistic	Eclectica	Absolute returns	\$1,030,601	3.7%	n/a
Absolute returns – Global macro	Odey	Absolute returns	\$834,905	3.0%	n/a
Absolute returns – Managed futures	Aspect Capital	Absolute returns	\$511,984	1.9%	n/a
Commodities – Futures	Standard & Poor's	Commodities	\$0	0.0%	n/a
Global shares – Futures	NZ Funds	Global shares	-\$15,206,940	-55.2%	4.9%
<b>CURRENCY STRATEGIES</b>				<b>20.0%</b>	
New Zealand Dollar/United States Dollar	NZ Funds	Currency	\$1,404,989	5.1%	n/a
United States Dollar/Euro	NZ Funds	Currency	\$1,377,440	5.0%	n/a
Yen/Swiss Franc	NZ Funds	Currency	\$1,369,176	5.0%	n/a
United States Dollar/Norwegian Krone	NZ Funds	Currency	\$1,366,421	5.0%	n/a
New Zealand Dollar/Yen	NZ Funds	Currency	\$0	0.0%	n/a
<b>TOTAL ECONOMIC EXPOSURE<sup>2</sup></b>			<b>\$33,075,258</b>	<b>120.1%</b>	

<sup>1</sup> The yield calculation represents an estimate of the yield on the Portfolio, calculated using the most recent information provided by the investment managers involved in managing the Portfolio, hedged back to New Zealand dollars where appropriate. It is not calculated 'as at' any particular date as different investment managers provide data at varying dates. As a result, in some instances the yields may lag the date of this portfolio summary. The yield is not the return on the Portfolio, nor is it a projection or forecast. The Portfolio's return could be less than the Portfolio's yield. Details of the yield calculation are available on request from New Zealand Funds Management. <sup>2</sup> Total economic exposure represents the total economic value of a Portfolio, which is the gross asset value of the Portfolio adjusted for the effect of direct or indirect derivative positions taken by the Portfolio. Note: Rounding may affect the subtotals and totals.

## TAX-ADJUSTED PERFORMANCE TO 30 JUNE 2010 FOR DIVERSIFIED GROWTH COMPOSITE STRATEGY\* (PART 1)

DGP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	Manager performance; bonds	Bonds	Manager performance; bonds
Neutral	Cash; commodities	Cash; currency	Cash; currency
Negative	Global shares; currency	Shares	Shares; commodities



COMPARISON	DGP 1 MONTH	DGP 3 MONTH	DGP 6 MONTH	DGP 1 YEAR	DGP 2 YEAR PA	COMPOSITE 5 YEAR PA	COMPOSITE 7 YEAR PA	COMPOSITE SINCE INCEPTION <sup>1</sup>	COMPOSITE MAXIMUM DRAWDOWN <sup>x</sup>
Diversified Growth Composite Strategy*	-1.08%	-4.18%	-2.82%	4.43%	-1.36%	2.50%	6.00%	165.10%	-38.83%
Comparative index**	-2.59%	-6.54%	-3.03%	6.73%	-3.77%	1.05%	2.94%	117.31%	-40.22%

<sup>1</sup> Pre-tax equivalent gross return. IMPORTANT: Please refer to the slide that follows for the footnotes relating to this slide.

## TAX-ADJUSTED PERFORMANCE TO 30 JUNE 2010 FOR DIVERSIFIED GROWTH COMPOSITE STRATEGY\* (PART 2)

**Tax-adjusted Performance**

- \* The Diversified Growth Composite Strategy is a tax-adjusted composite strategy stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

**Diversified Growth Composite Strategy**

The Diversified Growth Composite Strategy is made up of the Balanced Selection Trust (SBT) from 30 November 1992 to 14 March 1995, the Medium Growth Portfolio Trust (PMG) from 14 March 1995 to 20 February 2001, the Diversified Growth Strategy (DGS) from 20 February 2001 to 28 February 2008, and the Diversified Growth Portfolio (DGP) from 28 February 2008 onwards.

SBT and PMG were New Zealand Unit Trusts, DGS was established as an Australian Unit Trust. DGP is a PIE. The tax-adjusted composite strategy is designed to remove, as much as possible, the impact of the different tax regimes that applied during the calculation period. By doing so it enables the returns from SBT, PMG, DGS and DGP to be represented in a substantially consistent manner without tax distortions.

The Diversified Growth Composite Strategy covers five different tax regimes, and accordingly the use of different calculation methods is necessary to remove the impact of the various regimes. These are:

- i) The period to 20 February 2001. New Zealand Unit Trust returns were reported net of tax and have been grossed up by 33% (being the tax rate applicable to New Zealand Unit Trusts) to reflect the pre-tax position.
- ii) The period 20 February 2001 to 30 September 2005. Australian Unit Trust returns were generally not taxable to investors, and to provide a comparison the returns have been grossed up by 33% to reflect that actual returns were after tax.
- iii) The period from 1 October 2005 to 31 March 2007. Investors were only taxable on distributions made by Australian Unit Trusts. The returns have therefore been grossed up by 33% and adjusted for any tax payable on distributions made.
- iv) The period from 1 April 2007 to 28 February 2008. Australian Unit Trust holdings were subject to the Fair Dividend Rate regime. The returns have been grossed up by the tax amount payable under the Fair Dividend Rate regime.
- v) The period from 28 February 2008. PIE returns are reported gross of tax, and as such no adjustment has been made to returns attributable to DGP.

This calculation is undertaken for comparative purposes only, and should not be confused with the portfolio return generated from either SBT, PMG, DGS or DGP. More details on these calculations, together with the formulae used, are available on request from New Zealand Funds Management.

## TAX-ADJUSTED PERFORMANCE TO 30 JUNE 2010 FOR DIVERSIFIED GROWTH COMPOSITE STRATEGY\* (PART 3)

**Comparative Index**

\*\* The comparative index is made up of 35% MSCI World Index (hedged), 35% MSCI World Index (unhedged) and 30% New Zealand Government Bond Index. All index figures are sourced from Bloomberg. A fee of 1.75% pa has been deducted to reflect the cost of obtaining a passive global share market exposure using an Exchange Traded Fund, the brokerage associated with purchasing it, the cost of hedging part of this exposure, and the spread on government bonds. The comparative index is stated on a pre-tax basis.

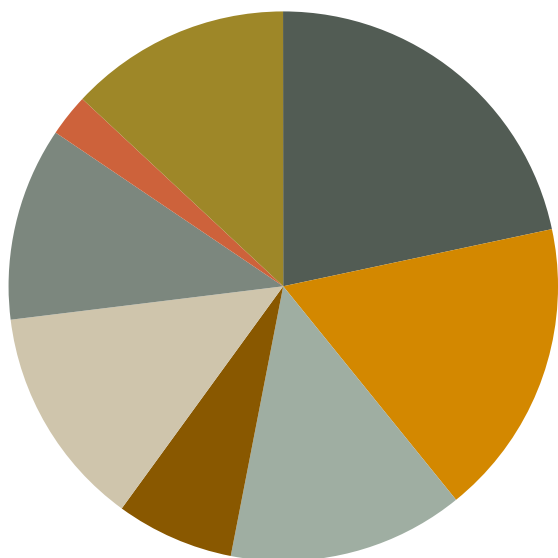
**Maximum Drawdown**

x Returns should be looked at in conjunction with the level of risk associated with an investment. For this reason, the 'maximum drawdown' is included for both the strategy and the comparison. The maximum drawdown is a measure of volatility and represents the largest decline in value experienced during the reporting period.

\* The Diversified Growth Composite Strategy is a tax-adjusted composite strategy stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

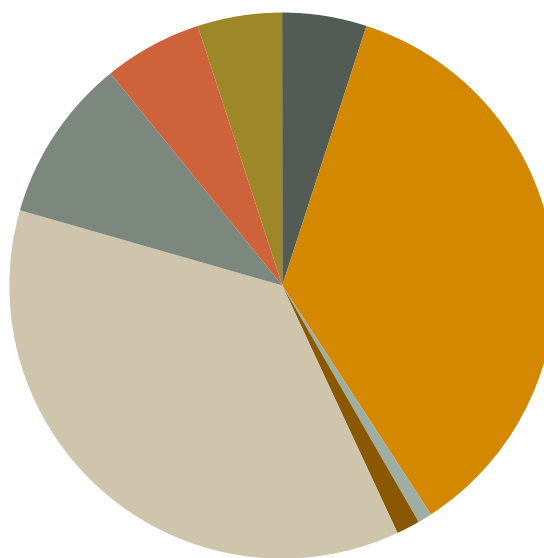
ASSET ALLOCATION (%)

January 2009



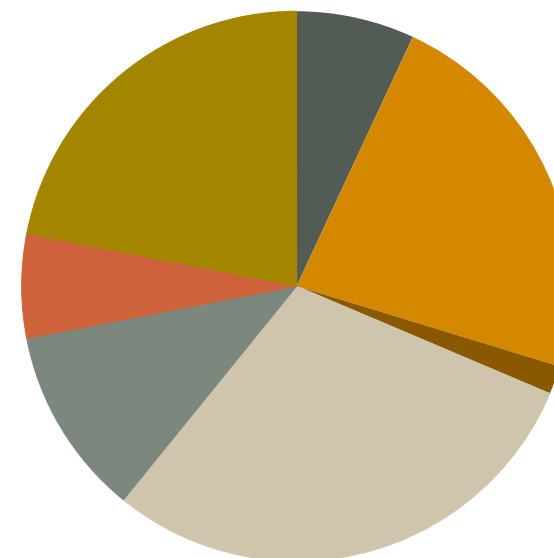
● CASH	25
● GOVERNMENT BONDS	20
● CORPORATE BONDS	16
● LOANS	8
● GLOBAL SHARES (HEDGED)	15
● AUSTRALASIAN SHARES (HEDGED)	13
● ABSOLUTE RETURN STRATEGIES	3
● CURRENCY STRATEGIES	15
TOTAL	115

January 2010



● CASH	7
● GOVERNMENT BONDS	49
● CORPORATE BONDS	1
● LOANS	2
● GLOBAL SHARES (UNHEDGED)	50
● AUSTRALASIAN SHARES (UNHEDGED)	13
● ABSOLUTE RETURN STRATEGIES	8
● CURRENCY STRATEGIES	7
TOTAL	137

June 2010



● CASH	9
● GOVERNMENT BONDS	29
● LOANS	2
● GLOBAL SHARES (HEDGED)	38
● AUSTRALASIAN SHARES (HEDGED)	14
● ABSOLUTE RETURN STRATEGIES	8
● CURRENCY STRATEGIES	28
TOTAL	128

## COMPLETE PORTFOLIO AS AT 29 JUNE 2010

### PORTFOLIO SUMMARY

Yield <sup>1</sup>	4.7%
Income strategies	94%
Growth strategies	6%
Currency strategies	28%
Total economic exposure	128%

STRATEGY / SECURITY	MANAGER	ASSET CLASS	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	YIELD
<b>INCOME STRATEGIES</b>				<b>94.2%</b>	
Bank deposits / Bank bills	NZ Funds	Cash	\$6,608,463	8.8%	2.6%
Global shares hedge	NZ Funds	Cash	\$40,627,030	54.1%	4.9%
United States government bonds	NZ Funds	Government bonds	\$4,770,973	6.4%	5.7%
Australian government bonds	NZ Funds	Government bonds	\$4,590,028	6.1%	3.5%
German government bonds	NZ Funds	Government bonds	\$4,528,187	6.0%	5.2%
United Kingdom government bonds	NZ Funds	Government bonds	\$4,402,213	5.9%	5.9%
New Zealand government bonds	NZ Funds	Government bonds	\$3,742,568	5.0%	5.4%
Loans (via Private Loan Trust)	Fidelity	New Zealand direct loans	\$1,438,341	1.9%	7.6%
Global government bonds – Futures	NZ Funds	Government bonds	\$0	0.0%	2.5%
<b>GROWTH STRATEGIES</b>				<b>5.8%</b>	
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$10,213,080	13.6%	7.2%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$7,659,810	10.2%	7.4%
Global shares – Defensive	Platinum	Global shares	\$7,584,713	10.1%	2.3%
Global shares – Growth	T Rowe Price	Global shares	\$6,908,848	9.2%	5.2%
Global shares – Active	Odey	Global shares	\$6,683,559	8.9%	4.5%
Absolute returns – Global macro	Odey	Absolute returns	\$2,580,680	3.4%	n/a
Absolute returns – Opportunistic	Eclectica	Absolute returns	\$2,090,647	2.8%	n/a
Absolute returns – Managed futures	Aspect Capital	Absolute returns	\$1,282,034	1.7%	n/a
Commodities – Futures	Standard & Poor's	Commodities	\$0	0.0%	n/a
Global shares – Futures	NZ Funds	Global shares	-\$40,627,030	-54.1%	4.9%
<b>CURRENCY STRATEGIES</b>				<b>28.1%</b>	
New Zealand Dollar/United States Dollar	NZ Funds	Currency	\$5,331,828	7.1%	n/a
Yen/Swiss Franc	NZ Funds	Currency	\$5,264,242	7.0%	n/a
United States Dollar/Euro	NZ Funds	Currency	\$5,256,732	7.0%	n/a
United States Dollar/Norwegian Krone	NZ Funds	Currency	\$5,226,694	7.0%	n/a
New Zealand Dollar/Yen	NZ Funds	Currency	\$0	0.0%	n/a
<b>TOTAL ECONOMIC EXPOSURE<sup>2</sup></b>			<b>\$96,163,640</b>	<b>128.1%</b>	

<sup>1</sup> The yield calculation represents an estimate of the yield on the Portfolio, calculated using the most recent information provided by the investment managers involved in managing the Portfolio, hedged back to New Zealand dollars where appropriate. It is not calculated 'as at' any particular date as different investment managers provide data at varying dates. As a result, in some instances the yields may lag the date of this portfolio summary. The yield is not the return on the Portfolio, nor is it a projection or forecast. The Portfolio's return could be less than the Portfolio's yield. Details of the yield calculation are available on request from New Zealand Funds Management. <sup>2</sup> Total economic exposure represents the total economic value of a Portfolio, which is the gross asset value of the Portfolio adjusted for the effect of direct or indirect derivative positions taken by the Portfolio. Note: Rounding may affect the subtotals and totals.











