

Manager insight – 30 September 2009

The objective of the Growth Portfolios is to grow capital over the investor's investment horizon and to preserve capital during negative market environments. Over the past month the Portfolios have appreciated in line with global share markets and year to date they are up between 1.85% and 5.04%¹, depending on each Portfolio's exposure to shares.

Returns from share markets tend to be very episodic, with the market experiencing periods when returns are very strong and periods when returns are poor. These periods of poor returns can last a number of years, testing the patience of a buy-and-hold investor.

The strategy of the Growth Portfolios is to participate in market upturns during the positive periods but preserve capital during market downturns. These Portfolios use two major techniques to implement this strategy: a capital protection hedging strategy and the selection of world-leading investment managers. A number of the managers used by the Growth Portfolios have the ability to move to cash or fixed interest investments should they believe these investments offer better value than shares. These managers have repeatedly proven that they are able to add value and protect investors' capital through the use of this facility. Platinum Asset Management is one of these managers. Kerr Neilson the portfolio manager of the Platinum International Fund has managed equity portfolios through three market crashes (1987, 2001/02 and 2007/08). In all cases his investment process has protected the portfolio from large declines.

Kerr would say that he is first and foremost a stock picker. While this is correct, the world is full of many good stock pickers. What makes Platinum's approach different is the portfolio's risk management techniques. In addition to buying shares, Platinum will also sell 'short' those shares which it feels are overvalued. This means that the overall share market exposure in the portfolio is usually less than 100%. Platinum will also sell futures on the major share market indices should it believe the market has become overvalued.

Share insight: Bombardier

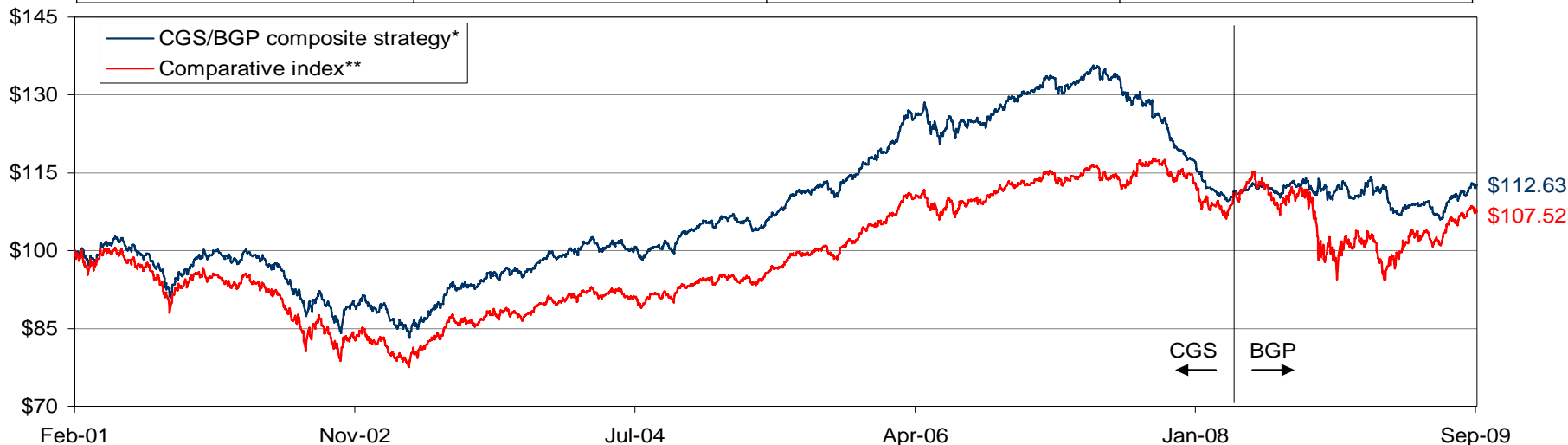
A share currently held in the Platinum portfolio is Bombardier. Bombardier is a Toronto-based conglomerate with 30% of the global corporate jet market, a 50% share in the regional commercial jet market and roughly a third of the global train market. These are highly cyclical industries, all of which are experiencing issues. Nevertheless, the barriers to entry are significant and at some point governments, local authorities and airlines have to look at replacing their fleets. Historically, Bombardier has earned margins of 8% to 10% and was valued at over CAD\$25 per share. In 2002 it got a little overzealous in bidding for large projects and lost much of its margin. Investors sold down the shares, leaving the company valued at only 12% of its previous worth. Despite this, Bombardier's market share has not altered and for the past seven years management has been studiously cutting costs and outsourcing manufacturing to China. As a result its margins have steadily grown and are now back to historic norms. The share price, however, is yet to recover and is trading at CAD\$5, a fifth of its value seven years ago.

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

Balanced Growth Portfolio

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

BGP performance attribution	1 month	3 month	6 month
Positive	Global shares; govt. bonds	Corp. bonds; global shares	Corp. bonds; global shares
Neutral	Currency	Cash; currency	Cash; govt. bonds
Negative	Equity put options	Equity put options	Currency



Period	BGP 1 month	BGP 3 month	BGP 6 month	BGP 1 year
Portfolio	1.20%	5.12%	4.91%	1.32%

Composite 2 year pa	Composite since inception pa
-6.28%	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.

*Conservative Growth Strategy (CGS) data from 20 Feb 01 to 28 Feb 08. Balanced Growth Portfolio (BGP) from 28 Feb 08 to 30 Sep 09. **Source: Bloomberg. 25% MSCI World Index (hedged), 25% MSCI World Index (unhedged) and 50% New Zealand Government Bond Index. Comparative index adjusted for assumed portfolio management fee of 1.75% pa. Details of the comparative index calculation are available on request from NZ Funds.

Balanced Growth Portfolio

Portfolio summary as at 30 September 2009

Portfolio summary

Yield*	5.4%
Income strategies	51%
Growth strategies	50%
Currency strategies	0%
Total economic exposure	101%

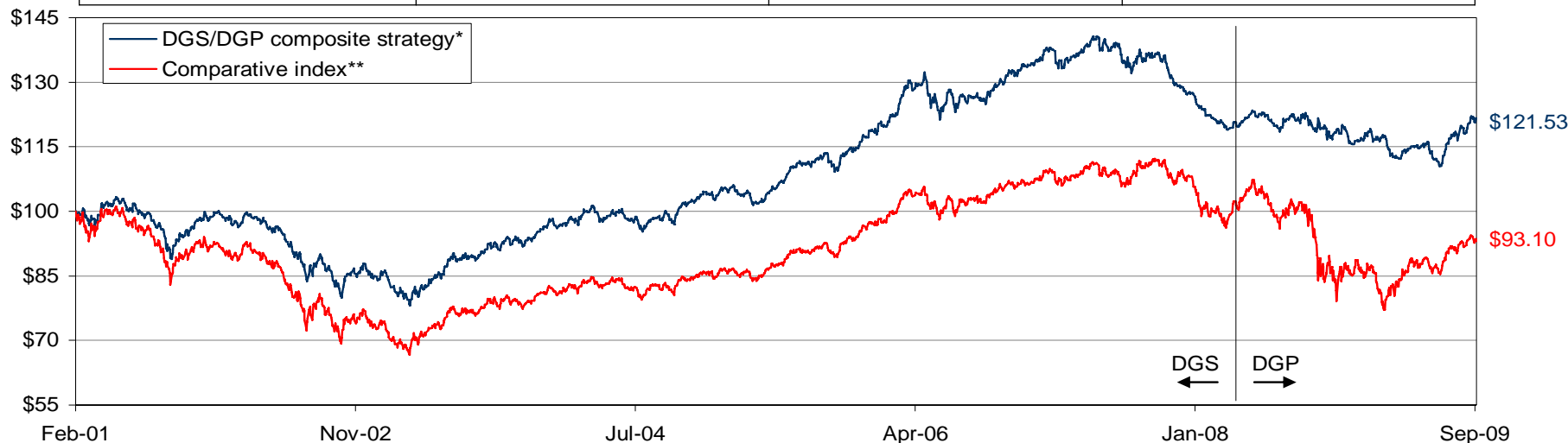
Strategy	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield*
Income strategies				51.0%	
Money market	NZ Funds	Cash	\$5,462,784	19.0%	2.7%
United States government bonds	NZ Funds	Government bonds	\$3,450,180	12.0%	5.7%
New Zealand government bonds	NZ Funds	Government bonds	\$1,437,575	5.0%	5.5%
United Kingdom government bonds	NZ Funds	Government bonds	\$1,437,575	5.0%	5.6%
German government bonds	NZ Funds	Government bonds	\$1,437,575	5.0%	5.2%
Global corporate bonds	NZ Funds	Corporate bonds	\$862,545	3.0%	5.6%
Loans (via Private Loan Trust)	NZ Funds	New Zealand direct loans	\$575,030	2.0%	7.8%
Growth strategies				50.0%	
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$4,025,210	14.0%	7.0%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$3,162,665	11.0%	7.1%
Global shares – Defensive	Platinum	Global shares	\$2,587,635	9.0%	7.1%
Global shares – Defensive	Odey	Global shares	\$2,300,120	8.0%	3.9%
Global shares – Growth	T Rowe Price	Global shares	\$2,012,605	7.0%	4.3%
Global shares – Index exposure	NZ Funds	Global shares	\$287,515	1.0%	5.4%
Currency strategies				0.0%	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
Total economic exposure			\$29,039,012	101.0%	

*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. Rather, it is an estimate of the pre-tax and fees income stream generated from investing in the Portfolio. The Portfolio return consists of yield and capital gains and losses. Therefore, the Portfolio's return could be less than the Portfolio's yield. The yield is not a projection or forecast of future performance or of future income streams. Past yields are not necessarily an indication of future yields. Details of the yield calculation are available on request from NZ Funds. Note: Rounding may affect the subtotals and totals.

Diversified Growth Portfolio

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

DGP performance attribution	1 month	3 month	6 month
Positive	Global shares; govt. bonds	Corp. bonds; global shares	Corp. bonds; global shares
Neutral	Currency	Cash; currency	Cash; govt. bonds
Negative	Equity put options	Equity put options	Currency



Period	DGP 1 month	DGP 3 month	DGP 6 month	DGP 1 year	Composite 2 year pa	Composite since inception pa
Portfolio	1.85%	8.27%	8.04%	2.08%	-5.39%	2.29%

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 Sep 09. **Source: Bloomberg. 35% MSCI World Index (hedged), 35% MSCI World Index (unhedged) and 30% New Zealand Government Bond Index. Comparative index adjusted for assumed portfolio management fee of 1.75% pa. Details of the comparative index calculation are available on request from NZ Funds.

Diversified Growth Portfolio



Portfolio summary as at 30 September 2009

Portfolio summary

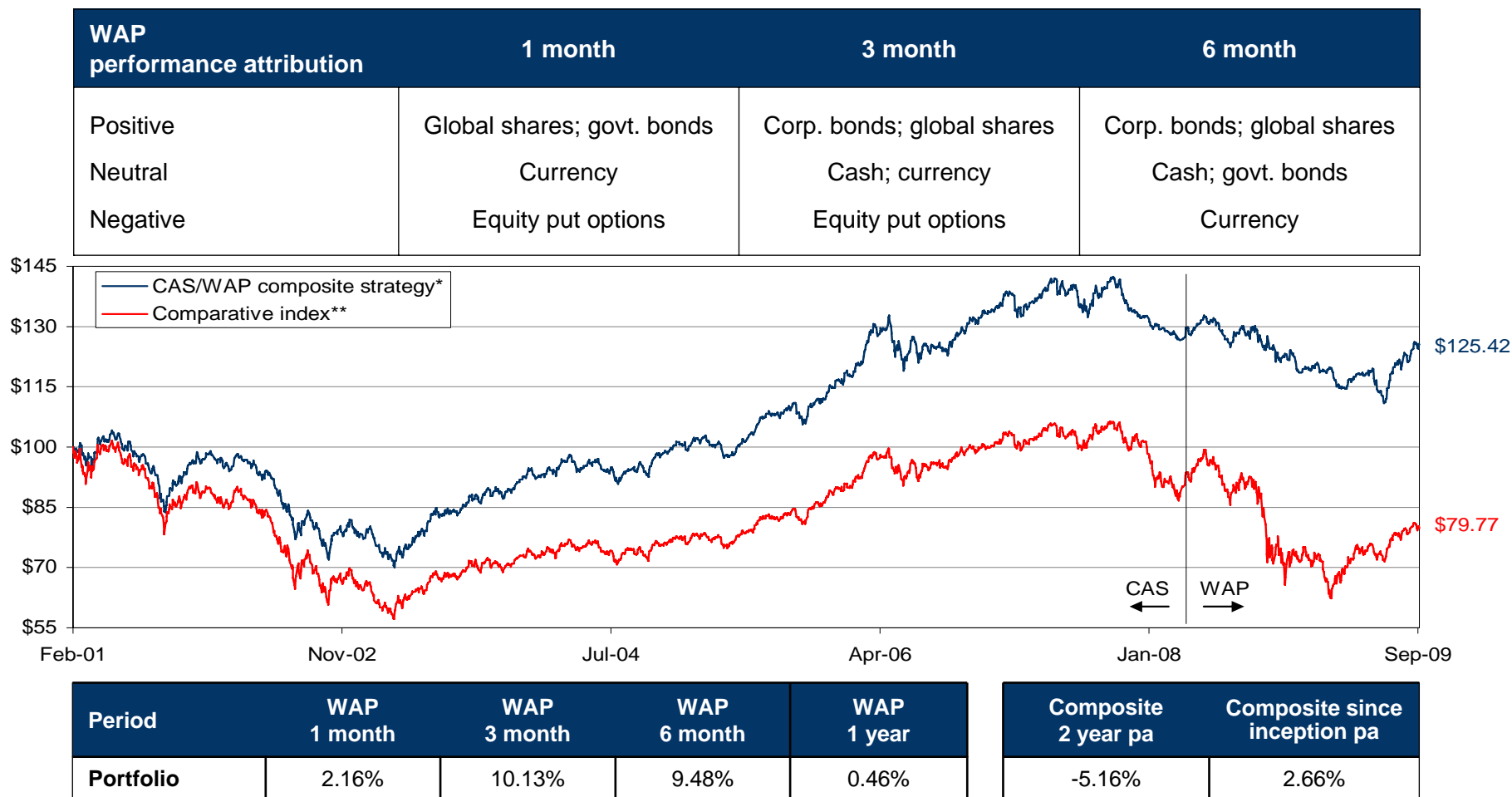
Yield*	6.4%
Income strategies	46%
Growth strategies	70%
Currency strategies	0%
Total economic exposure	116%

Strategy	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield*
Income strategies				46.0%	
Money market	NZ Funds	Cash	\$10,549,190	11.0%	2.7%
United States government bonds	NZ Funds	Government bonds	\$13,426,242	14.0%	5.7%
New Zealand government bonds	NZ Funds	Government bonds	\$4,795,087	5.0%	5.5%
United Kingdom government bonds	NZ Funds	Government bonds	\$4,795,087	5.0%	5.6%
German government bonds	NZ Funds	Government bonds	\$4,795,087	5.0%	5.2%
Global corporate bonds	NZ Funds	Corporate bonds	\$3,836,069	4.0%	5.6%
Loans (via Private Loan Trust)	NZ Funds	New Zealand direct loans	\$1,918,035	2.0%	7.8%
Growth strategies				70.0%	
Global shares – Index exposure	NZ Funds	Global shares	\$15,344,277	16.0%	5.4%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$12,467,225	13.0%	7.0%
Global shares – Growth	T Rowe Price	Global shares	\$10,549,190	11.0%	4.3%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$10,549,190	11.0%	7.1%
Global shares – Defensive	Odey	Global shares	\$9,590,173	10.0%	3.9%
Global shares – Defensive	Platinum	Global shares	\$8,631,156	9.0%	7.1%
Currency strategies				0.0%	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
Total economic exposure			\$111,246,007	116.0%	

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Wealth Appreciation Portfolio

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



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 Sep 09. **Source: Bloomberg. 45% MSCI World Index (hedged), 45% MSCI World Index (unhedged) and 10% New Zealand Government Bond Index. Comparative index adjusted for assumed portfolio management fee of 1.75% pa. Details of the comparative index calculation are available on request from NZ Funds.

Wealth Appreciation Portfolio

Portfolio summary as a 30 September 2009

Portfolio summary

Yield*	7.5%
Income strategies	46%
Growth strategies	90%
Currency strategies	0%
Total economic exposure	136%

Strategy	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield*
Income strategies				46.0%	
Money market	NZ Funds	Cash	\$11,910,892	11.0%	2.7%
United States government bonds	NZ Funds	Government bonds	\$15,159,317	14.0%	5.7%
New Zealand government bonds	NZ Funds	Government bonds	\$5,414,042	5.0%	5.5%
United Kingdom government bonds	NZ Funds	Government bonds	\$5,414,042	5.0%	5.6%
German government bonds	NZ Funds	Government bonds	\$5,414,042	5.0%	5.2%
Global corporate bonds	NZ Funds	Corporate bonds	\$4,331,233	4.0%	5.6%
Loans (via Private Loan Trust)	NZ Funds	New Zealand direct loans	\$2,165,617	2.0%	7.8%
Growth strategies				90.0%	
Global shares – Index exposure	NZ Funds	Global shares	\$38,981,100	36.0%	5.4%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$15,159,317	14.0%	7.1%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$15,159,317	14.0%	7.0%
Global shares – Growth	T Rowe Price	Global shares	\$12,993,700	12.0%	4.3%
Global shares – Defensive	Odey	Global shares	\$7,579,658	7.0%	3.9%
Global shares – Defensive	Platinum	Global shares	\$7,579,658	7.0%	7.1%
Currency strategies				0.0%	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
Total economic exposure			\$147,261,934	136.0%	

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

Past performance is not necessarily an indication of future returns.

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