

## Manager insight – 30 November 2009

The Growth Portfolios are designed to grow investors' capital over time, and also to preserve capital during negative market environments. Over the past month the Portfolios appreciated in value as share markets rallied. Year to date the Portfolios have appreciated by between 0.66% to 4.67%<sup>1</sup>.

Most of the world's developed governments have responded to the Global Financial Crisis by taking a Keynesian approach and increasing their fiscal deficits. The International Monetary Fund has recently calculated that the G20 countries' fiscal deficits increased from 1% in 2007 to 8% in 2009. While a gradual improvement is expected as tax revenues increase, some country's fiscal deficits remain at unsustainable levels.

The most common measure of looking at a government's indebtedness is to look at its gross debt as a percent of its GDP. Among the developed world, Japan has the highest debt to GDP at over 162% and this is generally expected to increase to over 200% in the not too distant future. To put this figure into context, the Japanese government receives tax revenues of 30% of GDP each year. This is used for either government spending programs, interest repayments or debt repayment. At current long-term interest rates of 2%, over 13% of the tax take is spent on interest costs. However, if interest rates were to rise to say 5%, interest servicing costs would balloon to 33% of tax revenue, a clearly unsustainable level.

Japan is not alone either. Greece and Belgium have debt to GDP levels approaching 100% and both the US and UK's indebtedness is forecast to reach 90%.

Governments have four major options when faced with a debt problem. They can grow the economy, cut spending, repudiate the debt or debase their money supply (ie allow/create inflation). Most developed world economies are simply too large to grow their way out of their debt problem. They also have an aging population which is going to place additional pressure on spending requirements, making absolute cuts in government spending difficult. Consequently, the global economy could be entering an environment where government's default either through actual default (as Russia did in 1998) or through inflation (eg Zimbabwe). However, this time it might be the developed countries that default rather than the emerging nations.

The Growth Portfolios currently have some exposure to government bonds, although no exposure to the most indebted nations. At present they hold the bonds of four governments – the US, the UK, Germany and New Zealand. These securities are not passively held and will either be sold or hedged if interest rates rise. We feel there is currently a place for these bonds in the Growth Portfolios as they will perform strongly if economic growth disappoints. Paradoxically this could be the catalyst for governments further increasing their spending, thereby making their debt load even more unsustainable.

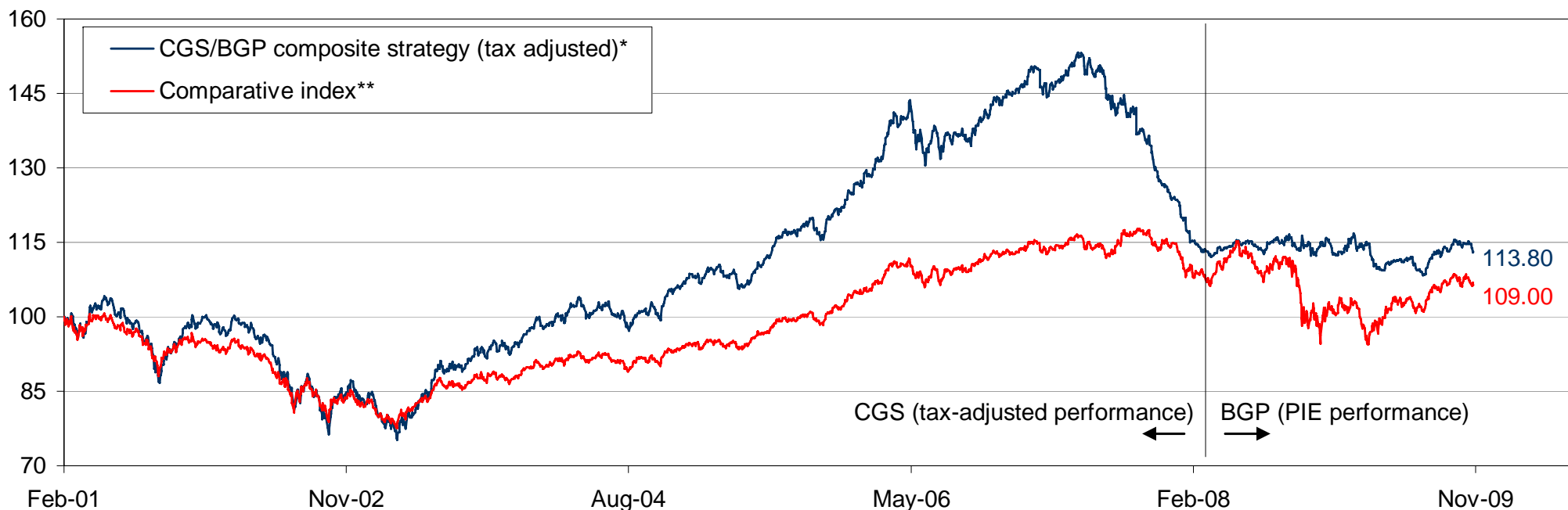
<sup>1</sup> Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

# Balanced Growth Portfolio



Tax-adjusted performance to 30 November 2009 for CGS/BGP composite strategy\* (Part 1)

BGP performance attribution	1 month	3 month	6 month
Positive	Global shares; bonds	Global shares	Cash; global shares
Neutral	Cash	Cash	Cash
Negative	NZ shares; currency	Bonds; equity options	Bonds



Comparison	BGP 1 month	BGP 3 month	BGP 6 month	BGP 1 year
<b>CGS/BGP (tax adjusted)*</b>	0.67%	0.02%	2.04%	-0.49%
<b>Comparative index**</b>	2.38%	1.89%	5.98%	7.12%

Composite 2 year pa	Composite 5 year pa	Composite 7 year pa	Composite since inception pa	Composite maximum drawdownx
-5.13%	1.46%	3.89%	1.48%	-29.24%
-2.84%	3.21%	3.62%	0.99%	-22.91%

**IMPORTANT:** Please refer to the slide that follows for the footnotes relating to this slide.

## Tax-adjusted performance to 30 November 2009 for CGS/BGP composite strategy\* (Part 2)

### Tax-adjusted composite strategy

\* Tax-adjusted composite strategy is stated after portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns. The composite covers Conservative Growth Strategy (CGS) data from 20 February 2001 to 27 February 2008, and Balanced Growth Portfolio (BGP) data from 28 February 2008 to 30 November 2009.

CGS was established as an Australian Unit Trust (AUT). In calculating the tax-adjusted composite strategy, for CGS the return has been 'grossed up' at 33% (being the tax rate applicable to New Zealand Unit Trusts) to reflect the fact that the return was generally not taxable to an investor. 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.

The tax-adjusted composite strategy covers three different tax regimes, and accordingly three different calculation methods are applied over the course of the strategy. The three calculation periods are:

- i) the period pre 31 March 2007 (being the period prior to the introduction of the FDR regime);
- ii) the period from 1 April 2007 to 28 February 2008 (being the period that a New Zealand investor in CGS was subject to the FDR regime);

iii) the period post 1 March 2008 (establishment date of BGP under the PIE regime).

This calculation is undertaken for comparative purposes only, and should not be confused with the portfolio return generated from CGS or BGP.

More details on these calculations, together with the formulae used, are available on request from NZ Funds.

### 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

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

# Balanced Growth Portfolio



## Complete portfolio as at 30 November 2009

### Portfolio summary

Yield <sup>1</sup>	5.4%
Income strategies	49%
Growth strategies	50%
Currency strategies	0%
Total economic exposure	99%

Strategy / Security	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield <sup>1</sup>
<b>Income strategies</b>				<b>48.7%</b>	
Money market	NZ Funds	Cash	\$5,300,040	18.4%	2.7%
United States government bonds	NZ Funds	Government bonds	\$5,184,822	18.0%	5.9%
German government bonds	NZ Funds	Government bonds	\$1,157,943	4.0%	5.6%
United Kingdom government bonds	NZ Funds	Government bonds	\$1,002,399	3.5%	5.9%
New Zealand government bonds	NZ Funds	Government bonds	\$864,137	3.0%	5.6%
Loans (via Private Loan Trust)	Fidelity	New Zealand direct loans	\$396,299	1.4%	7.3%
Global corporate bonds	NZ Funds	Corporate bonds	\$106,577	0.4%	6.4%
<b>Growth strategies</b>				<b>50.1%</b>	
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$3,707,147	12.9%	7.1%
Global shares – Defensive	Platinum	Global shares	\$2,851,652	9.9%	7.1%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$2,840,130	9.9%	6.8%
Global shares – Growth	T Rowe Price	Global shares	\$2,707,629	9.4%	5.2%
Global shares – Active	Odey	Global shares	\$2,678,825	9.3%	3.8%
Commodities	S&P Goldman Sachs	Commodity futures	\$1,440,228	5.0%	n/a
Equity put options	NZ Funds	Global shares	\$14,402	0.1%	n/a
Global shares – Index exposure	NZ Funds	Global shares	-\$1,814,688	-6.3%	5.4%
<b>Currency strategies</b>				<b>0.0%</b>	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
<b>Total economic exposure</b>			<b>\$28,437,543</b>	<b>98.7%</b>	

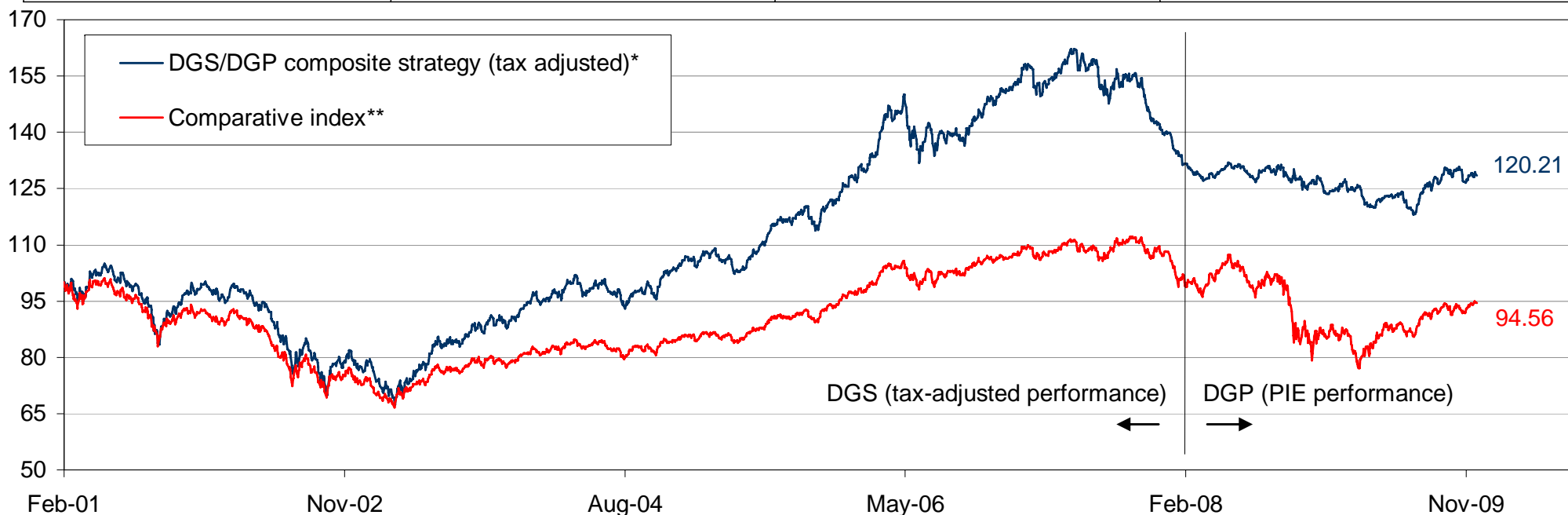
<sup>1</sup> The yield calculation represents an estimate of the yield on the Portfolio, calculated using the most recent information provided by the investment managers involved in managing the Portfolio, hedged back to New Zealand dollars where appropriate. It is not calculated 'as at' any particular 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. 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 (also calculated on a pre-tax and fees basis). Therefore, the Portfolio's return could be less than the Portfolio's yield. Details of the yield calculation are available on request from NZ Funds. Note: Rounding may affect the subtotals and totals.

# Diversified Growth Portfolio



## Tax-adjusted performance to 30 November 2009 for DGS/DGP composite strategy\* (Part 1)

DGP performance attribution	1 month	3 month	6 month
Positive	Global shares; bonds	Global shares	Cash; global shares
Neutral	Cash	Cash	Cash
Negative	NZ shares; currency	Bonds; equity options	Bonds



Comparison	DGP 1 month	DGP 3 month	DGP 6 month	DGP 1 year
DGS/DGP (tax adjusted)*	1.30%	0.75%	4.27%	1.77%
Comparative index**	2.89%	2.14%	7.72%	8.63%

Composite 2 year pa	Composite 5 year pa	Composite 7 year pa	Composite since inception pa	Composite maximum drawdownx
-5.04%	4.46%	6.67%	2.90%	-35.81%
-6.90%	2.40%	2.98%	-0.63%	-34.02%

**IMPORTANT:** Please refer to the slide that follows for the footnotes relating to this slide.

## Tax-adjusted performance to 30 November 2009 for DGS/DGP composite strategy\* (Part 2)

### Tax-adjusted composite strategy

\* Tax-adjusted composite strategy is stated after portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns. The composite covers Diversified Growth Strategy (DGS) data from 20 February 2001 to 27 February 2008, and Diversified Growth Portfolio (DGP) data from 28 February 2008 to 30 November 2009.

DGS was established as an Australian Unit Trust (AUT). In calculating the tax-adjusted composite strategy, for DGS the return has been 'grossed up' at 33% (being the tax rate applicable to New Zealand Unit Trusts) to reflect the fact that the return was generally not taxable to an investor. 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 DGS and DGP to be represented in a substantially consistent manner.

The tax-adjusted composite strategy covers three different tax regimes, and accordingly three different calculation methods are applied over the course of the strategy. The three calculation periods are:

- i) the period pre 31 March 2007 (being the period prior to the introduction of the FDR regime);
- ii) the period from 1 April 2007 to 28 February 2008 (being the period that a New Zealand investor in DGS was subject to the FDR regime);

iii) the period post 1 March 2008 (establishment date of DGP under the PIE regime).

This calculation is undertaken for comparative purposes only, and should not be confused with the portfolio return generated from DGS or DGP.

More details on these calculations, together with the formulae used, are available on request from NZ Funds.

### 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

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

# Diversified Growth Portfolio



## Complete portfolio as at 30 November 2009

### Portfolio summary

Yield <sup>1</sup>	6.3%
Income strategies	48%
Growth strategies	70%
Currency strategies	0%
Total economic exposure	118%

Strategy / Security	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield <sup>1</sup>
<b>Income strategies</b>				<b>48.1%</b>	
Money market	NZ Funds	Cash	\$8,019,829	8.6%	2.7%
United States government bonds	NZ Funds	Government bonds	\$21,877,347	23.5%	5.9%
German government bonds	NZ Funds	Government bonds	\$4,877,175	5.2%	5.6%
United Kingdom government bonds	NZ Funds	Government bonds	\$4,224,398	4.5%	5.9%
New Zealand government bonds	NZ Funds	Government bonds	\$3,646,224	3.9%	5.6%
Loans (via Private Loan Trust)	Fidelity	New Zealand direct loans	\$1,746,398	1.9%	7.3%
Global corporate bonds	NZ Funds	Corporate bonds	\$447,618	0.5%	6.4%
<b>Growth strategies</b>				<b>69.9%</b>	
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$12,001,767	12.9%	7.1%
Global shares – Index exposure	NZ Funds	Global shares	\$10,257,920	11.0%	5.4%
Global shares – Growth	T Rowe Price	Global shares	\$9,884,905	10.6%	5.2%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$9,511,890	10.2%	6.8%
Global shares – Defensive	Platinum	Global shares	\$8,579,352	9.2%	7.1%
Global shares – Active	Odey	Global shares	\$8,392,844	9.0%	3.8%
Commodities	S&P Goldman Sachs	Commodity futures	\$6,527,767	7.0%	n/a
Equity put options	NZ Funds	Global shares	\$46,627	0.1%	n/a
<b>Currency strategies</b>				<b>0.0%</b>	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
<b>Total economic exposure</b>			<b>\$110,042,061</b>	<b>118.0%</b>	

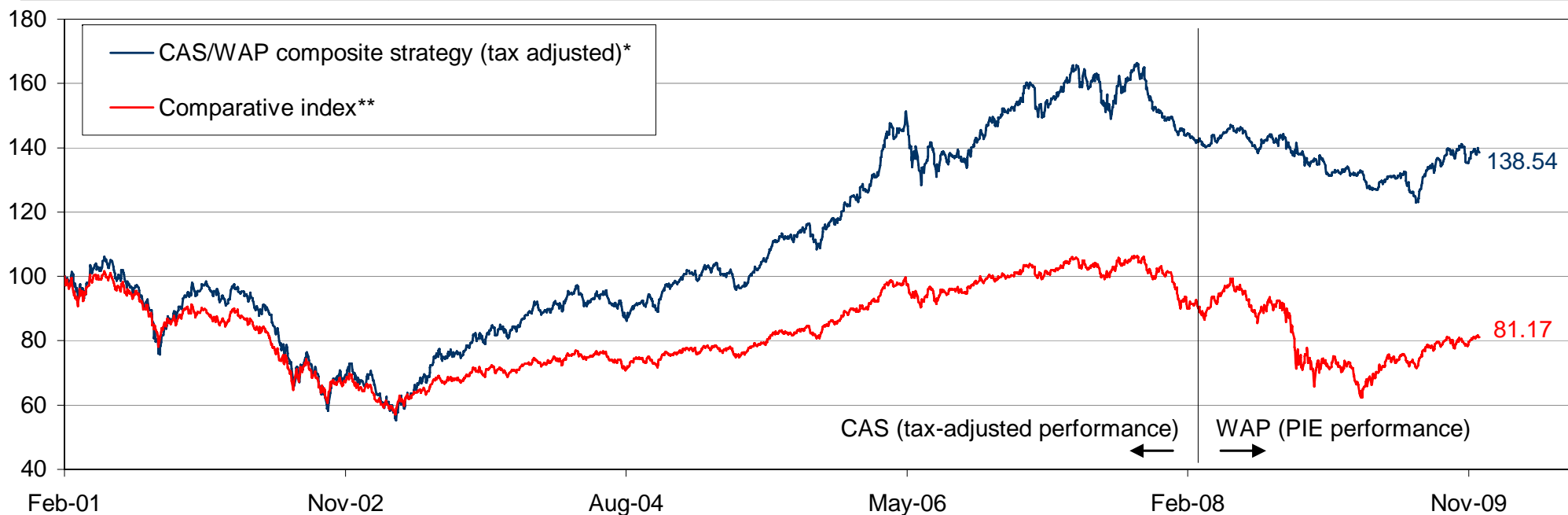
<sup>1</sup> The yield calculation represents an estimate of the yield on the Portfolio, calculated using the most recent information provided by the investment managers involved in managing the Portfolio, hedged back to New Zealand dollars where appropriate. It is not calculated 'as at' any particular 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. 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 (also calculated on a pre-tax and fees basis). Therefore, the Portfolio's return could be less than the Portfolio's yield. Details of the yield calculation are available on request from NZ Funds. Note: Rounding may affect the subtotals and totals.

# Wealth Appreciation Portfolio



Tax-adjusted performance to 30 November 2009 for CAS/WAP composite strategy\* (Part 1)

WAP performance attribution	1 month	3 month	6 month
Positive	Global shares; bonds	Global shares	Cash; global shares
Neutral	Cash	Cash	Cash
Negative	NZ shares; currency	Bonds; equity options	Bonds



Comparison	WAP 1 month	WAP 3 month	WAP 6 month	WAP 1 year
CAS/WAP (tax adjusted)*	2.29%	1.80%	5.53%	2.69%
Comparative index**	3.40%	2.38%	9.45%	9.99%

Composite 2 year pa	Composite 5 year pa	Composite 7 year pa	Composite since inception pa	Composite maximum drawdownx
-4.35%	7.19%	9.60%	3.78%	-47.91%
-11.00%	1.47%	2.25%	-2.35%	-43.70%

**IMPORTANT:** Please refer to the slide that follows for the footnotes relating to this slide.

## Tax-adjusted performance to 30 November 2009 for CAS/WAP composite strategy\* (Part 2)

### Tax-adjusted composite strategy

\* Tax-adjusted composite strategy is stated after portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns. The composite covers Capital Appreciation Strategy (CAS) data from 20 February 2001 to 27 February 2008, and Wealth Appreciation Portfolio (WAP) data from 28 February 2008 to 30 November 2009.

CAS was established as an Australian Unit Trust (AUT). In calculating the tax-adjusted composite strategy, for CAS the return has been 'grossed up' at 33% (being the tax rate applicable to New Zealand Unit Trusts) to reflect the fact that the return was generally not taxable to an investor. 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 CAS and WAP to be represented in a substantially consistent manner.

The tax-adjusted composite strategy covers three different tax regimes, and accordingly three different calculation methods are applied over the course of the strategy. The three calculation periods are:

- i) the period pre 31 March 2007 (being the period prior to the introduction of the FDR regime);
- ii) the period from 1 April 2007 to 28 February 2008 (being the period that a New Zealand investor in CAS was subject to the FDR regime);

iii) the period post 1 March 2008 (establishment date of WAP under the PIE regime).

This calculation is undertaken for comparative purposes only, and should not be confused with the portfolio return generated from CAS or WAP.

More details on these calculations, together with the formulae used, are available on request from NZ Funds.

### Comparative index

\*\* The comparative index is made up of 45% MSCI World Index (hedged), 45% MSCI World Index (unhedged) and 10% 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

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

# Wealth Appreciation Portfolio



## Complete portfolio as a 30 November 2009

### Portfolio summary

Yield <sup>1</sup>	6.9%
Income strategies	49%
Growth strategies	90%
Currency strategies	0%
Total economic exposure	139%

Strategy / Security	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield <sup>1</sup>
<b>Income strategies</b>				<b>48.8%</b>	
Money market	NZ Funds	Cash	\$12,680,157	11.3%	2.7%
United States government bonds	NZ Funds	Government bonds	\$24,978,787	22.3%	5.9%
German government bonds	NZ Funds	Government bonds	\$5,577,025	5.0%	5.6%
United Kingdom government bonds	NZ Funds	Government bonds	\$4,825,192	4.3%	5.9%
New Zealand government bonds	NZ Funds	Government bonds	\$4,151,910	3.7%	5.6%
Loans (via Private Loan Trust)	Fidelity	New Zealand direct loans	\$1,996,899	1.8%	7.3%
Global corporate bonds	NZ Funds	Corporate bonds	\$516,183	0.5%	6.4%
<b>Growth strategies</b>				<b>89.9%</b>	
Global shares – Index exposure	NZ Funds	Global shares	\$33,327,492	29.7%	5.4%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$13,532,982	12.1%	7.1%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$12,680,157	11.3%	6.8%
Global shares – Growth	T Rowe Price	Global shares	\$11,221,378	10.0%	5.2%
Global shares – Defensive	Platinum	Global shares	\$10,099,240	9.0%	7.1%
Commodities	S&P Goldman Sachs	Commodity futures	\$10,099,240	9.0%	n/a
Global shares – Active	Odey	Global shares	\$9,874,812	8.8%	3.8%
Equity put options	NZ Funds	Global shares	\$56,107	0.1%	n/a
<b>Currency strategies</b>				<b>0.0%</b>	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
<b>Total economic exposure</b>			<b>\$155,617,560</b>	<b>138.7%</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. 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 (also calculated on a pre-tax and fees basis). Therefore, the Portfolio's return could be less than the Portfolio's yield. Details of the yield calculation are available on request from NZ Funds. 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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