

Manager insight – 31 March 2009

Disappointingly, the Growth Portfolios declined in value over the month. This was despite share markets rallying over this period. However, it is important to put this decline into context. Since the start of the year, the Portfolios have declined 2.92% to 4.06%¹, whereas global share markets have fallen by 10%². Since inception (28 February 2008), the Portfolios have returned between -3.29% to -10.77%¹ versus the MSCI World Index which returned -39.59%².

The primary driver of performance over the month was the 20–24% exposure to US dollars. The 13% appreciation in the New Zealand dollar resulted in a loss of around 2.90% for each Portfolio. The US dollar position has subsequently been reduced as the short-term direction of the NZ/US dollar is uncertain.

The US government bond position was sold at a profit after the US Federal Reserve announced its intention to purchase government bonds to stimulate the economy. The 13-17% NZ government bond position suffered mark-to-market losses as long-term New Zealand interest rates rose to 5.30%. As noted by the RBNZ, it is difficult to justify the recent increase in New Zealand long-term interest rates.

The catalyst for the share market appreciation was reports of improved profitability within the major banks. Additional global measures to restore bank balance sheets and increase liquidity also helped sentiment. As the share market rose, a portion of the 'equity hedging strategy' was removed. The Balanced Growth Portfolio now has a 15% weight to

shares, while the Diversified Growth and Wealth Appreciation Portfolios have a 21% and 29% allocation respectively. Should the share market continue to rally, the Portfolios will move back to their full allocation to growth assets, which is 50%, 70% and 95% respectively.

Central banks and governments have reacted relatively quickly to the financial crisis and to date appear to have learnt from the mistakes made in the 1930s Depression. Nevertheless, too much debt remains the global problem and growth will be weak until this debt is either repaid or written off. This deleveraging process will be a long, slow and painful experience.

The US consumer has moved from being a spender to a saver. This will have a direct impact on their spending patterns – for example, cars which had become status symbols have moved back to being once again just a form of transport, not requiring replacement every two years. The problems of Chrysler and General Motors could therefore be a precursor for the future as spending patterns change. Forecasting earnings is consequently problematic and historical valuations which suggest the market is cheap might be irrelevant.

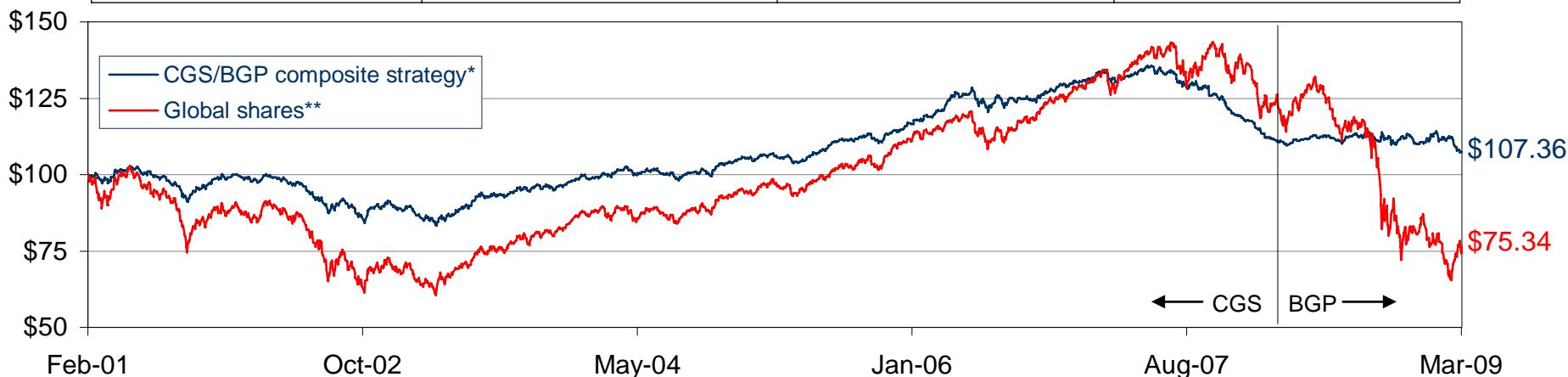
In this environment the strategy is to be cautious, protecting capital until the start of the next 'bull' market. If the bull market has already started, then the Growth Portfolios will participate. If share markets decline again, then the equity hedging strategy will protect clients' capital from further losses.

¹ Returns are stated after fund fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns. ² Source: Bloomberg

Balanced Growth Portfolio

Performance to 31 March 2009 for CGS/BGP composite strategy*

BGP performance attribution	One month	Three month	Six month
Positive	Cash holdings; global shares	-	-
Neutral	Global corporate bonds	-	-
Negative	Currency; NZ govt bonds	-	-



BGP return One-month	BGP return Three-month	BGP return Six-month	BGP return One-year	Composite strategy return Since inception pa
-4.10%	-2.92%	-3.43%	-2.78%	0.88%

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 31 Mar 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 31 March 2009

Portfolio summary

Income strategies (before equity hedge)	75%
Growth strategies (before equity hedge)	25%

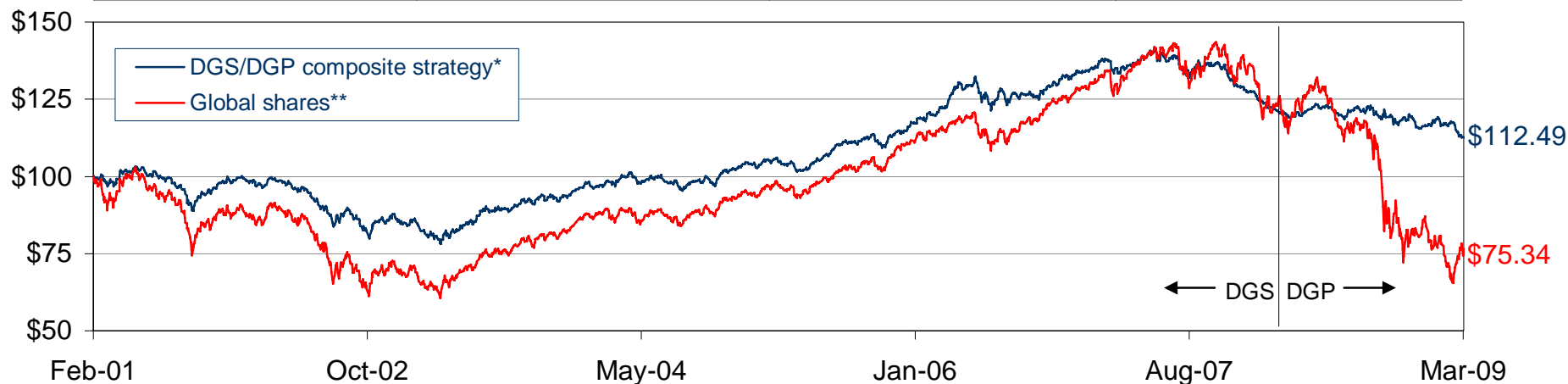
Strategy	Manager	Asset class	Proportion of portfolio
Income strategies			85%
Money market	NZ Funds	Cash	32%
Government bonds	NZ Funds	NZ government bonds	17%
NZ loans	Fidelity	NZ direct loans	4%
Corporate bonds	NZ Funds	Global corporate bonds	22%
Equity hedge*	NZ Funds	Cash	10%
Growth strategies			15%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	5%
Global shares – High dividend yield	Tweedy Browne	Global shares	8%
Global shares – Growth	T Rowe Price	Global shares	11%
Global absolute return	Multiple managers	Equity strategies	1%
Equity hedge**	NZ Funds	Global shares	-10%
Total			100%
Return enhancement			20%
Currency	NZ Funds	Exposure to weakening NZD	20%

*The effect of the equity hedge is to reduce the investment in shares and generate cash like returns. **The equity hedge applies to all of the growth strategies. Note: Rounding may affect the subtotals and totals.

Diversified Growth Portfolio

Performance to 31 March 2009 for DGS/DGP composite strategy*

DGP performance attribution	One month	Three month	Six month
Positive	Cash holdings; global shares	-	-
Neutral	Global corporate bonds	-	-
Negative	Currency; NZ govt bonds	-	-



DGP return One-month	DGP return Three-month	DGP return Six-month	DGP return One-year	Composite strategy return Since inception pa
-3.97%	-3.30%	-5.51%	-5.83%	1.46%

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 31 Mar 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 31 March 2009

Portfolio summary

Income strategies (before equity hedge)	73%
Growth strategies (before equity hedge)	27%

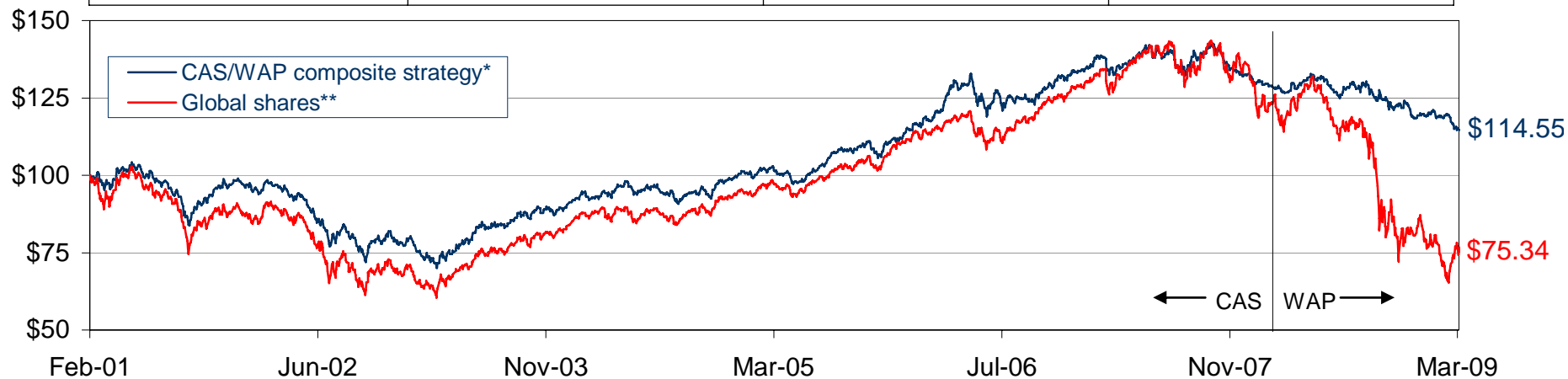
Strategy	Manager	Asset class	Proportion of portfolio
Income strategies			79%
Money market	NZ Funds	Cash	38%
Government bonds	NZ Funds	NZ government bonds	14%
NZ loans	Fidelity	NZ direct loans	4%
Corporate bonds	NZ Funds	Global corporate bonds	17%
Equity hedge*	NZ Funds	Cash	6%
Growth strategies			21%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	6%
Global shares – High dividend yield	Tweedy Browne	Global shares	10%
Global shares – Growth	T Rowe Price	Global shares	10%
Global absolute return	Multiple managers	Equity strategies	1%
Equity hedge**	NZ Funds	Global shares	-6%
Total			100%
Return enhancement			21%
Currency	NZ Funds	Exposure to weakening NZD	21%

*The effect of the equity hedge is to reduce the investment in shares and generate cash like returns. **The equity hedge applies to all of the growth strategies. Note: Rounding may affect the subtotals and totals.

Wealth Appreciation Portfolio

Performance to 31 March 2009 for CAS/WAS composite strategy*

WAP performance attribution	One month	Three month	Six month
Positive	Cash holdings; global shares	-	-
Neutral	Global corporate bonds	-	-
Negative	Currency; NZ govt bonds	-	-



WAP return One-month	WAP return Three-month	WAP return Six-month	WAP return One-year	Composite strategy return Since inception pa
-3.98%	-4.06%	-8.24%	-10.10%	1.69%

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 31 Mar 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 at 31 March 2009

Portfolio summary

Income strategies (before equity hedge)	67%
Growth strategies (before equity hedge)	33%

Strategy	Manager	Asset class	Proportion of portfolio
Income strategies			71%
Money market	NZ Funds	Cash	35%
Government bonds	NZ Funds	NZ government bonds	13%
NZ loans	Fidelity	NZ direct loans	3%
Corporate bonds	NZ Funds	Global corporate bonds	16%
Equity hedge*	NZ Funds	Cash	4%
Growth strategies			29%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	8%
Global shares – High dividend yield	Tweedy Browne	Global shares	13%
Global shares – Growth	T Rowe Price	Global shares	11%
Global absolute return	Multiple managers	Equity strategies	1%
Equity hedge**	NZ Funds	Global shares	-4%
Total			100%
Return enhancement			24%
Currency	NZ Funds	Exposure to weakening NZD	24%

*The effect of the equity hedge is to reduce the investment in shares and generate cash like returns. **The equity 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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