

Manager insight – 31 May 2009

It is now more than six months since the financial crisis reached its apparent zenith with the default of Lehman Brothers and the subsequent domino impact on a number of other banks around the world. In the months leading up to these events, investors had faced a continual barrage of bad news. Immediately after Lehman's default, a number of key global financial institutions were required to go cap in hand to their respective governments for a bailout. In comparison, the past three months have been relatively quiet. While two of the largest car companies have defaulted, this was not unexpected and had already been priced into the market.

Does this period of calm reflect better times or have financial markets just become complacent? Currently, it is difficult to answer that question. Economically the data has stopped getting worse, although unemployment globally continues to rise. Within the financial markets, the answer appears to be that things are getting better as global share markets have rallied strongly from the lows recorded in early March.

On 19 March, the Growth Portfolios' share hedging model signalled that the share market was starting to trend upwards. Part of the share hedging strategy was removed, enabling the Growth Portfolios to benefit. As a result, in May the Growth Portfolios had exposure to the global share market and this was the primary driver of performance over the month. Given the strength of the rally, the longer-term hedging model signalled that full share exposure should be taken in early June. The exposure to shares has therefore been increased back to its full weight (50%, 70% and 90% respectively). As mentioned during last month's conference call, the allocation to shares is now as shown under the 'fully invested'

scenario on page 49 of this document.

As part of the move back to a full allocation to shares, a new suite of share managers has been selected. In selecting these managers, special attention has been placed on how the managers perform in a negative share market environment. Going forward, the Growth Portfolios will have a combination of 'index plus managers' that will look to outperform in any environment and defensive managers who will look to outperform in a negative market environment. This combination of managers is designed to interact well with the capital protection strategy – when the share hedge is in place the Growth Portfolios should still perform positively; and when the Growth Portfolios are fully exposed to shares, slight manager underperformance will not result in negative returns. The appointment of Odey Asset Management reinforces this strategy.

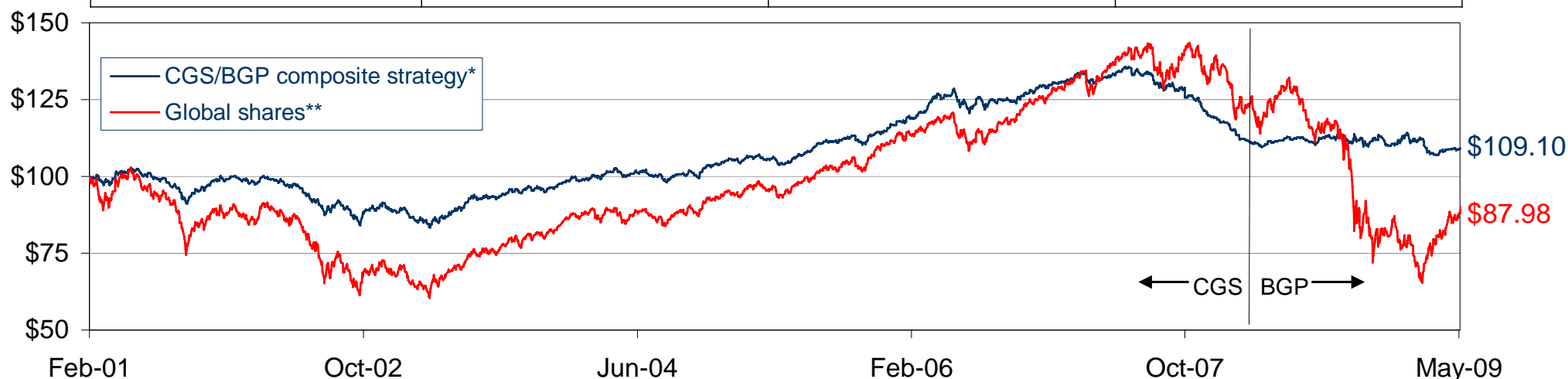
Although the Growth Portfolios now have a full exposure to shares, they are still managed with a defensive bias. In particular:

- The Growth Portfolios maintain a 20% allocation to New Zealand government bonds. These are expected to rally strongly should the share market fall.
- The global manager suite includes an allocation to defensive managers. These include Tweedy Browne and Odey. Both of these managers have an 'absolute return' bias and will look to protect capital should the market turn down.
- As soon as the longer-term moving average signal is triggered, the Growth Portfolios will move back into a fully hedged state.

Balanced Growth Portfolio

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

BGP performance attribution	One month	Three month	Six month
Positive	Global corporate bonds	-	-
Neutral	NZ government bonds	-	-
Negative	Currency options	-	-



BGP return One-month	BGP return Three-month	BGP return Six-month	BGP return One-year	Composite strategy return Since inception pa
0.35%	-2.54%	-2.47%	-2.95%	1.06%

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 May 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 May 2009

Portfolio summary

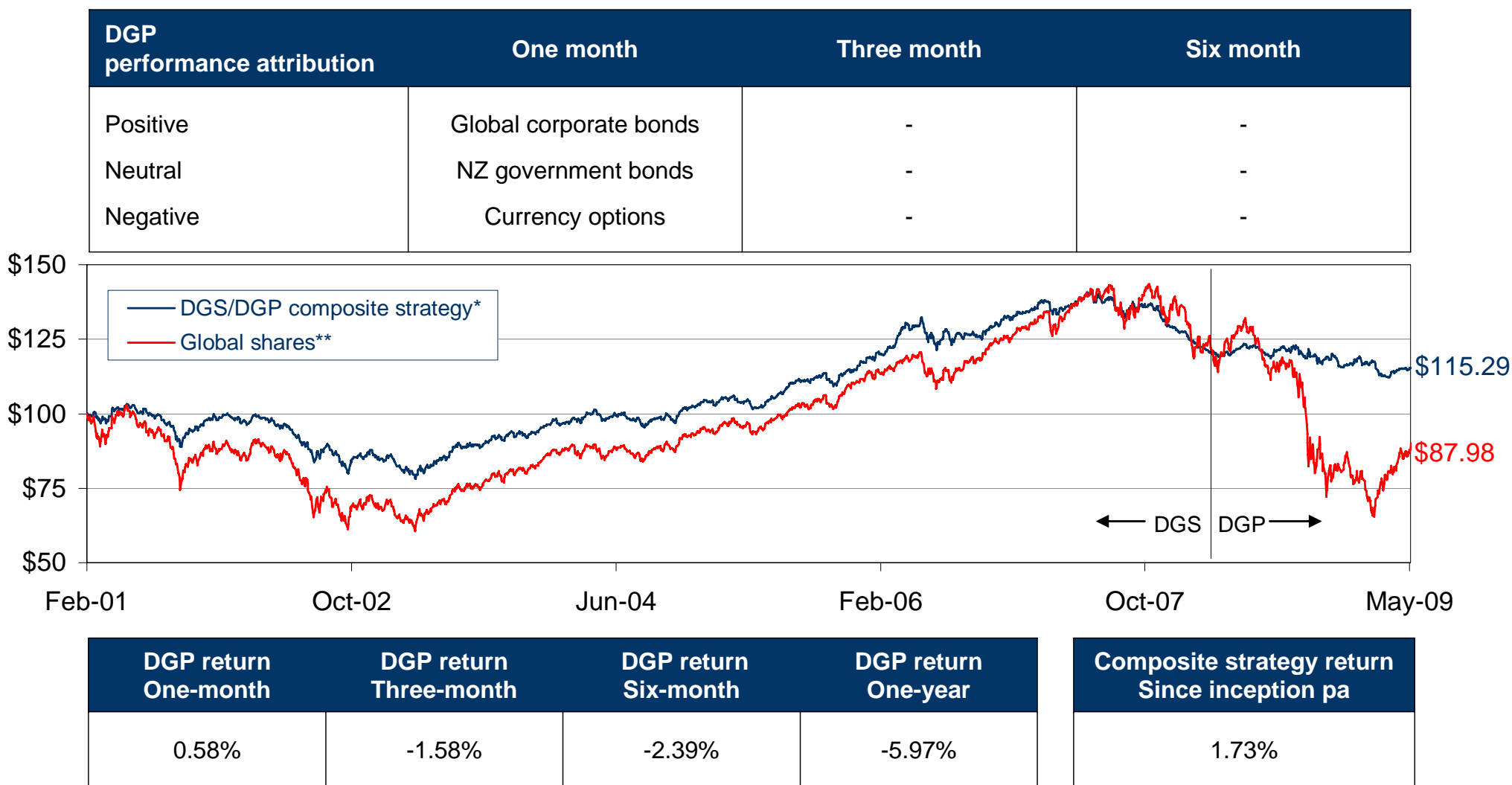
Income strategies (before share hedge)	68%
Growth strategies (before share hedge)	32%

Strategy	Manager	Asset class	Proportion of portfolio
Income strategies			85%
Money market	NZ Funds	Cash	23%
Government bonds	NZ Funds	NZ government bonds	21%
Loans (via Private Loan Trust)	NZ Funds	NZ direct loans	3%
Corporate bonds	NZ Funds	Global corporate bonds	21%
Share hedge*	NZ Funds	Cash	17%
Growth strategies			15%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	7%
Global shares – High dividend yield	Tweedy Browne	Global shares	9%
Global shares – Growth	T Rowe Price	Global shares	9%
Global shares – Defensive	Odey	Global shares	6%
Global absolute return	Multiple managers	Equity strategies	1%
Share hedge**	NZ Funds	Global shares	-17%
Total			100%
Return enhancement			0%
Currency	NZ Funds	NZ dollar/US dollar	0%

*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 May 2009 for DGS/DGP 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.
 *Diversified Growth Strategy (DGS) data from 20 Feb 01 to 28 Feb 08. Diversified Growth Portfolio (DGP) data from 28 Feb 08 to 31 May 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 May 2009

Portfolio summary

Income strategies (before share hedge)	60%
Growth strategies (before share hedge)	40%

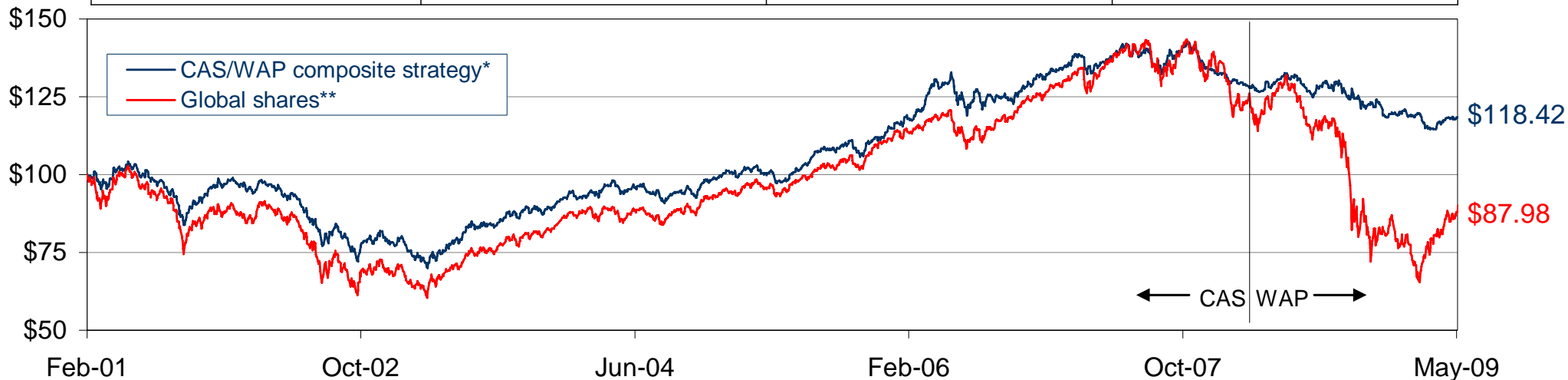
Strategy	Manager	Asset class	Proportion of portfolio
Income strategies			79%
Money market	NZ Funds	Cash	17%
Government bonds	NZ Funds	NZ government bonds	19%
Loans (via Private Loan Trust)	NZ Funds	NZ direct loans	3%
Corporate bonds	NZ Funds	Global corporate bonds	21%
Share hedge*	NZ Funds	Cash	19%
Growth strategies			21%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	10%
Global shares – High dividend yield	Tweedy Browne	Global shares	11%
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	-19%
Total			100%
Return enhancement			0%
Currency	NZ Funds	NZ dollar/US dollar	0%

*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 May 2009 for CAS/WAP composite strategy*

WAP performance attribution	One month	Three month	Six month
Positive	Global corporate bonds	-	-
Neutral	NZ government bonds	-	-
Negative	Currency options	-	-



WAP return One-month	WAP return Three-month	WAP return Six-month	WAP return One-year	Composite strategy return Since inception pa
0.82%	-0.73%	-2.69%	-10.01%	2.06%

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 May 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 May 2009

Portfolio summary

Income strategies (before share hedge)	56%
Growth strategies (before share hedge)	44%

Strategy	Manager	Asset class	Proportion of portfolio
Income strategies			72%
Money market	NZ Funds	Cash	18%
Government bonds	NZ Funds	NZ government bonds	16%
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			28%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	12%
Global shares – High dividend yield	Tweedy Browne	Global shares	12%
Global shares – Growth	T Rowe Price	Global shares	12%
Global shares – Defensive	Odey	Global shares	7%
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 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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