

Manager insight – 31 July 2009

At the start of the credit crisis there was discussion about the decoupling of the emerging markets from the developed world. This expectation reflected the view that the crisis was in the developed world's banking system and that as emerging countries were net savers their banking system was relatively robust.

Debunking the decoupling view, emerging countries' share markets fell as global growth slowed. As is typically the case, those markets which had appreciated the most prior to the crisis declined the most during the crisis. The so called 'BRIC' countries – Brazil, Russia, India and China – declined by 60%, 73%, 60% and 72% respectively from their highs. In all cases these declines were more than the declines seen in the developed world share markets. Russia was the worst performing market, reflecting the decline in the price of oil. The Chinese share market also declined sharply, reflecting that it is the global manufacturer of consumer products. Economically, China was also exposed and it is estimated that in excess of 20 million migrant workers in the export-intensive Guangdong province were laid off.

The Chinese government was one of the first to announce a fiscal package in an attempt to restore growth and stop civil unrest. In November 2008 the Chinese government announced a \$US500 billion infrastructure spending programme. In addition, they increased the lending quotas of the banks to encourage credit growth - China had reduced lending quotas in 2007 in an attempt to slow inflation. This increased lending resulted in a rebound in commodity and share prices, as Chinese industry restocked. Since reaching a low in

November 2008, the Chinese share market has increased by 100%.

Many economists argue that the seeds of the next problem are sown with the solutions to the current problem. This is definitely the case today with the credit crisis and US housing market problem being created by holding interest rates too low after the 2001 recession. There is the risk of exactly the same happening in China today. Lax lending by bank officers to meet government-imposed credit growth targets could result in a large increase in non-performing loans in the future. Stephen Roach, the Chairman of Morgan Stanley Asia, recently wrote in the Financial Times:

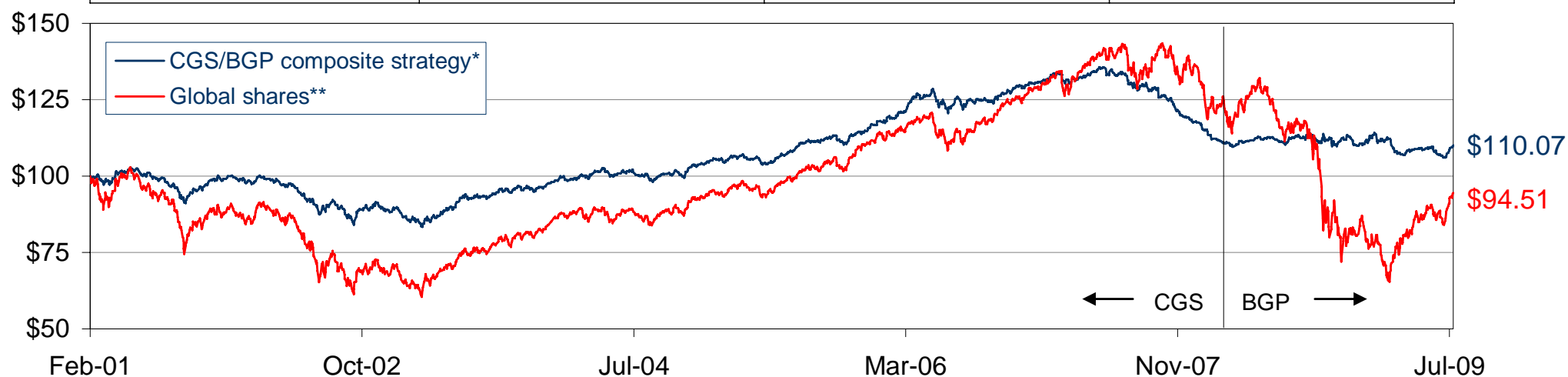
"Unlike most, I have been a steadfast optimist on China. Yet I am starting to worry. A macro strategy that exacerbates worrying imbalances is ultimately a recipe for failure. In many respects, that's what the global crisis and recession of 2008-09 are all about".

Given these concerns, the Growth Portfolios are taking a conservative approach to China. Each global manager is able to purchase emerging countries' shares, but they must meet the investment criteria of the portfolio. The global dividend yield portfolio will only invest in dividend-paying companies and currently has no holdings in China. The growth portfolio manager is concentrating on companies with strong franchises and balance sheets, and has less than 1% in China.

Balanced Growth Portfolio

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

BGP performance attribution	One month	Three month	Six month
Positive	Global shares	Cash; bonds; global shares	Cash; bonds; hedge
Neutral	Bonds; currency	n/a	n/a
Negative	n/a	Currency	Currency



BGP return One-month	BGP return Three-month	BGP return Six-month	BGP return One-year	Composite strategy return Since inception pa
2.72%	1.24%	-3.01%	-2.19%	1.14%

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 July 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 July 2009

Portfolio summary

Income strategies	48%
Growth strategies	93%
Currency strategies	0%
Combined economic exposure	141%

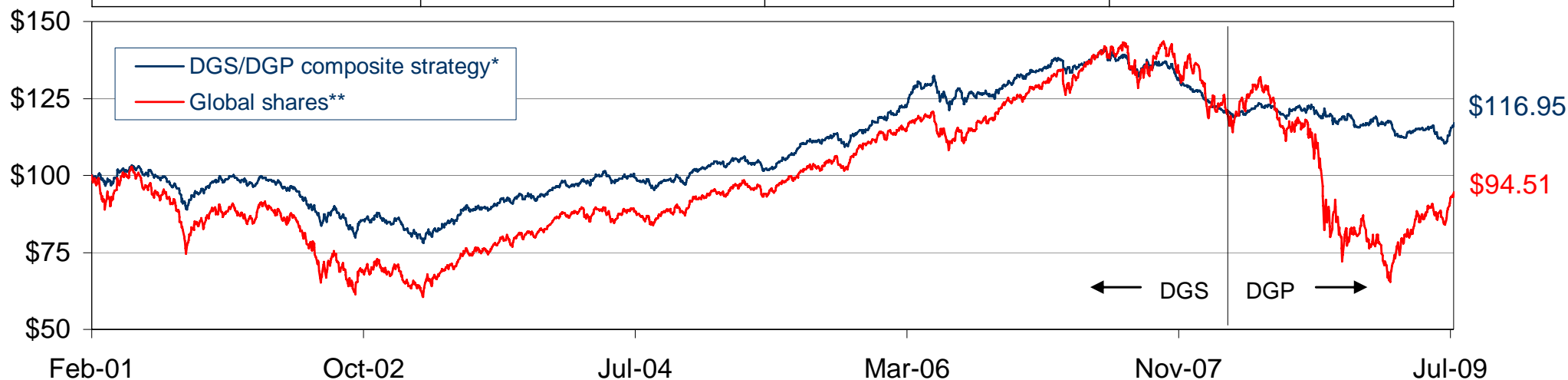
Strategy	Manager	Asset class	Proportion of portfolio
Income strategies			48%
Money market	NZ Funds	Cash	10%
Global corporate bonds	NZ Funds	Corporate bonds	19%
New Zealand government bonds	NZ Funds	Government bonds	4%
United States government bonds	NZ Funds	Government bonds	4%
United Kingdom government bonds	NZ Funds	Government bonds	4%
German government bonds	NZ Funds	Government bonds	4%
Loans (via Private Loan Trust)	NZ Funds	New Zealand direct loans	3%
Growth strategies			93%
Global shares – Index exposure	NZ Funds	Global shares	41%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	14%
Global shares – High dividend yield	Tweedy Browne	Global shares	14%
Global shares – Growth	T Rowe Price	Global shares	13%
Global shares – Defensive	Odey	Global shares	5%
Global shares – Defensive	Platinum	Global shares	5%
Global absolute return	Multiple managers	Equity strategies	1%
Currency strategies			0%
Currency	NZ Funds	NZ dollar/US dollar	0%
Total			141%

Note: Rounding may affect the subtotals and totals.

Diversified Growth Portfolio

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

DGP performance attribution	One month	Three month	Six month
Positive	Global shares	Cash; bonds; global shares	Cash; bonds; hedge
Neutral	Bonds; currency	n/a	n/a
Negative	n/a	Currency	Currency



DGP return One-month	DGP return Three-month	DGP return Six-month	DGP return One-year	Composite strategy return Since inception pa
4.19%	2.03%	-1.36%	-3.69%	1.87%

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 July 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 July 2009

Portfolio summary

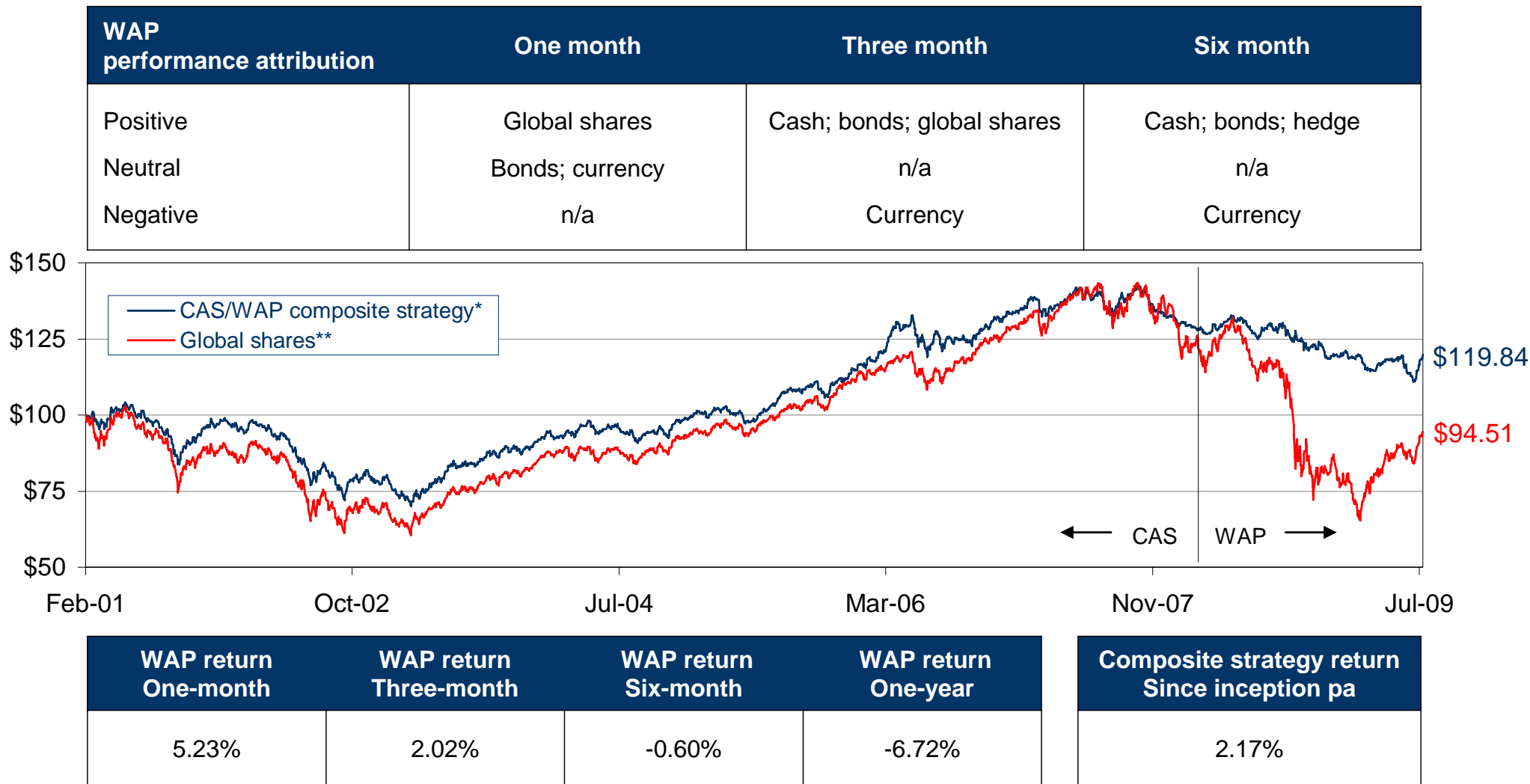
Income strategies	53%
Growth strategies	73%
Currency strategies	0%
Combined economic exposure	126%

Strategy	Manager	Asset class	Proportion of portfolio
Income strategies			53%
Money market	NZ Funds	Cash	13%
Global corporate bonds	NZ Funds	Corporate bonds	20%
New Zealand government bonds	NZ Funds	Government bonds	5%
United States government bonds	NZ Funds	Government bonds	5%
United Kingdom government bonds	NZ Funds	Government bonds	4%
German government bonds	NZ Funds	Government bonds	4%
Loans (via Private Loan Trust)	NZ Funds	New Zealand direct loans	2%
Growth strategies			73%
Global shares – Index exposure	NZ Funds	Global shares	26%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	12%
Global shares – High dividend yield	Tweedy Browne	Global shares	11%
Global shares – Growth	T Rowe Price	Global shares	12%
Global shares – Defensive	Odey	Global shares	5%
Global shares – Defensive	Platinum	Global shares	6%
Global absolute return	Multiple managers	Equity strategies	1%
Currency strategies			0%
Currency	NZ Funds	NZ dollar/US dollar	0%
Total			126%

Note: Rounding may affect the subtotals and totals.

Wealth Appreciation Portfolio

Performance to 31 July 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 31 July 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 a 31 July 2009

Portfolio summary

Income strategies	48%
Growth strategies	93%
Currency strategies	0%
Combined economic exposure	141%

Strategy	Manager	Asset class	Proportion of portfolio
Income strategies			48%
Money market	NZ Funds	Cash	10%
Global corporate bonds	NZ Funds	Corporate bonds	19%
New Zealand government bonds	NZ Funds	Government bonds	4%
United States government bonds	NZ Funds	Government bonds	4%
United Kingdom government bonds	NZ Funds	Government bonds	4%
German government bonds	NZ Funds	Government bonds	4%
Loans (via Private Loan Trust)	NZ Funds	New Zealand direct loans	3%
Growth strategies			93%
Global shares – Index exposure	NZ Funds	Global shares	41%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	14%
Global shares – High dividend yield	Tweedy Browne	Global shares	14%
Global shares – Growth	T Rowe Price	Global shares	13%
Global shares – Defensive	Odey	Global shares	5%
Global shares – Defensive	Platinum	Global shares	5%
Global absolute return	Multiple managers	Equity strategies	1%
Currency strategies			0%
Currency	NZ Funds	NZ dollar/US dollar	0%
Total			141%

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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