

Portfolio overview – 31 August 2009

Needs category objective

- Meet the need of an investor to grow capital to provide for future requirements.

Investment objective

- Achieve higher returns than bank deposits over the minimum investment time frame with differing levels of investment volatility depending on which Portfolio is selected.

Key features

- A permanent combination of growth and income strategies which currently includes: cash, global corporate bonds, New Zealand government bonds, global government bonds, Australasian shares, global shares, growth strategies and periodic foreign currency exposure.
- Actively managed by a range of exceptional investment managers whose commercial interests are aligned with that of NZ Funds' clients. Within the global shares allocation these include: Tweedy, Browne Company, Platinum Asset Management, T Rowe Price and Odey Asset Management.

Risk management

- Utilises NZ Funds' risk management strategy to actively manage risks associated with changes in interest rates, credit spreads, currency and share market volatility. NZ Funds' risk management strategy may result in a Portfolio's foreign currency exposure or global share exposure being fully hedged.
- A permanent allocation to defensive income-producing investments which are expected to generate positive returns during periods of share market volatility.

Return enhancement

- Long-term investors in income and growth assets which NZ Funds, or our external managers, perceive to have superior valuation characteristics.
- As managers, we recognise that during some periods all investments can suffer as part of a wider market malaise. We aim to identify these periods around the points at which they begin and end, and seek to preserve clients' capital during these stages of the cycle.

Manager insight – 31 August 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% and 4%¹, depending on each Portfolio's exposure to shares.

“I should have computed the historical covariance of the asset classes and drawn an efficient frontier. Instead I visualised my grief if the stock market went way up and I wasn't in it – or if it went way down and I was completely in it. My intention was to minimise my future regret, so I split my contributions 50/50 between bonds and equities.”

Harry Markowitz

Regret is a strong behavioural emotion especially with respect to investment. Investors will experience regret when they see with the benefit of hindsight that their chosen investment decision has achieved a lower return than an alternative. As noted in the opening quote, Harry Markowitz looked to minimise regret in his investments rather than follow his own model and maximise return. Most investors will accept that investing in global share markets has diversification benefits, however, should the currency exposure be hedged or not remains a challenging decision and is where regret seems most prevalent.

So far this year a hedged investor would have received a 16.3%² return from global shares while an unhedged investor would have received a

1.2%² return – a difference of 15%. Yet the common view at the start of the year was that the New Zealand dollar was likely to continue falling.

“Fundamentals, including the economic outlook, current account position, a rapidly deteriorating fiscal position and falling dairy prices, point to a sharply lower currency in 2009.”

ANZ Market Focus, 18 December 2008

Given that the experts are so often wrong, what is the correct currency hedging decision? One option is to follow Markowitz's advice and hedge 50% of the currency exposure. This minimises your regret, but it also ensures that you will experience some regret. The alternative is to look at the objective of the Growth Portfolios, which is to provide long-term capital growth. Currency exposure should therefore only be introduced into the Portfolios if it is likely to achieve capital growth. Regret should be compared to the Portfolio objective and not to a benchmark which may exhibit significantly more risk than an investor may desire.

The approach within the Growth Portfolios is therefore to fully hedge all foreign currency exposure. This reduces unnecessary risk in the Portfolios. Using proprietary currency models, a currency position will be taken if the New Zealand dollar is in a downtrend. The size of this position will be based on the risk characteristics of the Portfolio and will not be related to the global share market exposure in the Portfolio.

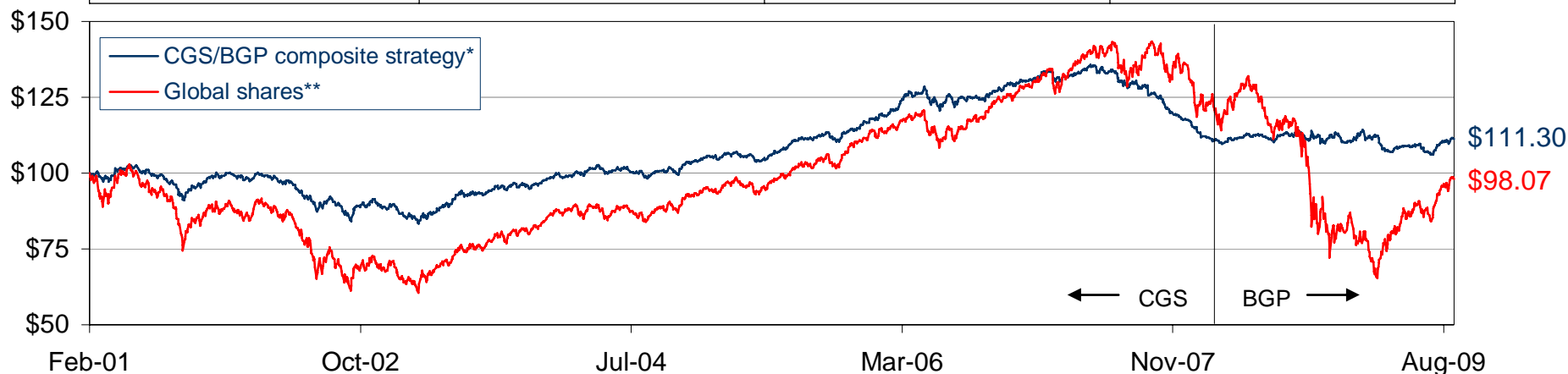
¹ Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

² MSCI World Index.

Balanced Growth Portfolio

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

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



BGP return One-month	BGP return Three-month	BGP return Six-month	BGP return One-year	Composite strategy return Since inception pa
1.12%	2.01%	-0.58%	-1.11%	1.26%

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 Aug 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 August 2009

Portfolio summary

Yield*	5.7%
Income strategies	51%
Growth strategies	50%
Currency strategies	0%
Total economic exposure	101%

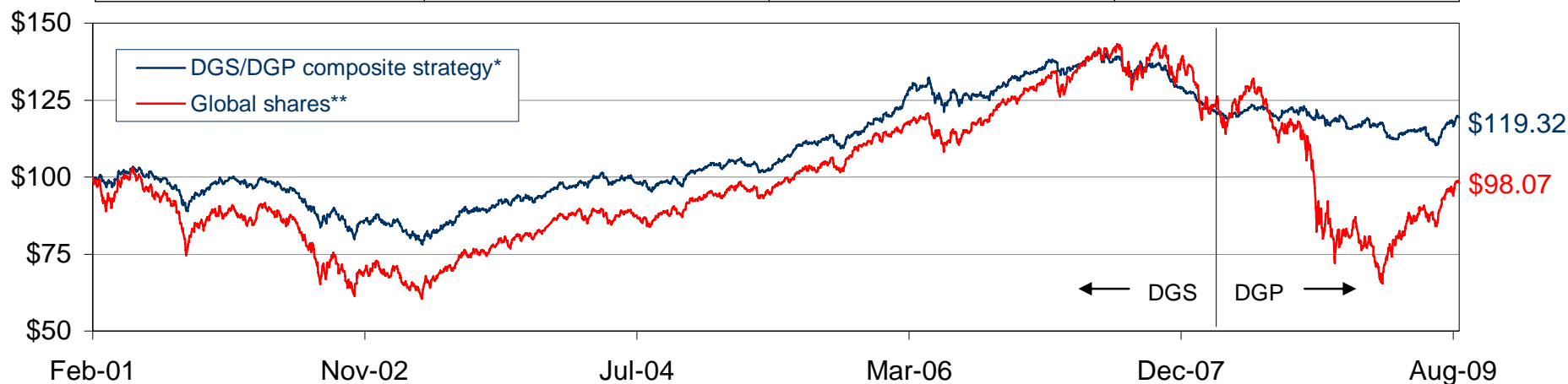
Strategy	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield*
Income strategies				51.0%	
Money market	NZ Funds	Cash	\$2,474,187	9.0%	2.8%
Global corporate bonds	NZ Funds	Corporate bonds	\$5,498,194	20.0%	5.7%
New Zealand government bonds	NZ Funds	Government bonds	\$1,374,549	5.0%	5.7%
United States government bonds	NZ Funds	Government bonds	\$1,374,549	5.0%	5.8%
United Kingdom government bonds	NZ Funds	Government bonds	\$1,374,549	5.0%	5.7%
German government bonds	NZ Funds	Government bonds	\$1,374,549	5.0%	5.3%
Loans (via Private Loan Trust)	NZ Funds	New Zealand direct loans	\$549,819	2.0%	7.8%
Growth strategies				50.0%	
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$3,024,007	11.0%	7.4%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$3,024,007	11.0%	7.4%
Global shares – Growth	T Rowe Price	Global shares	\$3,024,007	11.0%	4.3%
Global shares – Defensive	Odey	Global shares	\$2,199,278	8.0%	3.9%
Global shares – Defensive	Platinum	Global shares	\$2,199,278	8.0%	7.1%
Global shares – Index exposure	NZ Funds	Global shares	\$274,910	1.0%	5.5%
Currency strategies				0.0%	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
Total economic exposure			\$27,765,882	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 31 August 2009 for DGS/DGP composite strategy*

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



DGP return One-month	DGP return Three-month	DGP return Six-month	DGP return One-year	Composite strategy return Since inception pa
2.03%	3.50%	1.86%	-1.58%	2.09%

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 Aug 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 August 2009

Portfolio summary

Yield*	6.7%
Income strategies	50%
Growth strategies	70%
Currency strategies	0%
Total economic exposure	120%

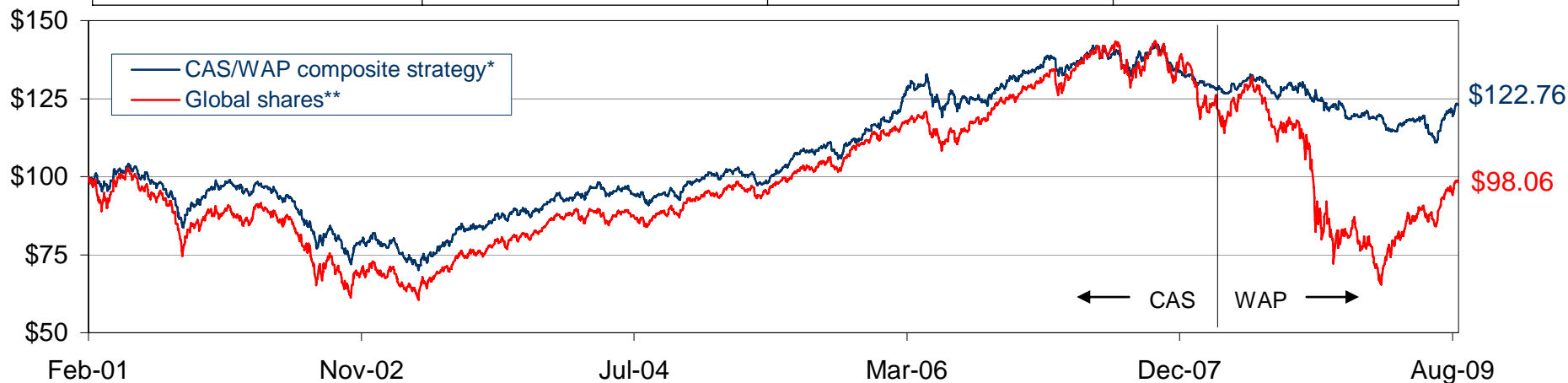
Strategy	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield*
Income strategies				50.0%	
Money market	NZ Funds	Cash	\$9,299,531	10.0%	2.8%
Global corporate bonds	NZ Funds	Corporate bonds	\$18,599,061	20.0%	5.7%
New Zealand government bonds	NZ Funds	Government bonds	\$4,649,765	5.0%	5.7%
United States government bonds	NZ Funds	Government bonds	\$4,649,765	5.0%	5.8%
United Kingdom government bonds	NZ Funds	Government bonds	\$3,719,812	4.0%	5.7%
German government bonds	NZ Funds	Government bonds	\$3,719,812	4.0%	5.3%
Loans (via Private Loan Trust)	NZ Funds	New Zealand direct loans	\$1,859,906	2.0%	7.8%
Growth strategies				70.0%	
Global shares – Index exposure	NZ Funds	Global shares	\$18,599,061	20.0%	5.5%
Global shares – Growth	T Rowe Price	Global shares	\$11,159,437	12.0%	4.3%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$10,229,484	11.0%	7.4%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$10,229,484	11.0%	7.4%
Global shares – Defensive	Odey	Global shares	\$7,439,624	8.0%	3.9%
Global shares – Defensive	Platinum	Global shares	\$7,439,624	8.0%	7.1%
Currency strategies				0.0%	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
Total economic exposure			\$111,594,367	120.0%	

*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.

Wealth Appreciation Portfolio

Performance to 31 August 2009 for CAS/WAP composite strategy*

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



WAP return One-month	WAP return Three-month	WAP return Six-month	WAP return One-year	Composite strategy return Since inception pa
2.44%	3.66%	2.90%	-4.38%	2.43%

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 Aug 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 August 2009

Portfolio summary

Yield*	7.7%
Income strategies	45%
Growth strategies	90%
Currency strategies	0%
Total economic exposure	135%

Strategy	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield*
Income strategies				45.0%	
Money market	NZ Funds	Cash	\$6,876,818	7.0%	2.8%
Global corporate bonds	NZ Funds	Corporate bonds	\$18,665,649	19.0%	5.7%
New Zealand government bonds	NZ Funds	Government bonds	\$3,929,610	4.0%	5.7%
United States government bonds	NZ Funds	Government bonds	\$3,929,610	4.0%	5.8%
United Kingdom government bonds	NZ Funds	Government bonds	\$3,929,610	4.0%	5.7%
German government bonds	NZ Funds	Government bonds	\$3,929,610	4.0%	5.3%
Loans (via Private Loan Trust)	NZ Funds	New Zealand direct loans	\$2,947,208	3.0%	7.8%
Growth strategies				90.0%	
Global shares – Index exposure	NZ Funds	Global shares	\$36,348,896	37.0%	5.5%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$12,771,234	13.0%	7.4%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$11,788,831	12.0%	7.4%
Global shares – Growth	T Rowe Price	Global shares	\$11,788,831	12.0%	4.3%
Global shares – Defensive	Odey	Global shares	\$7,859,221	8.0%	3.9%
Global shares – Defensive	Platinum	Global shares	\$7,859,221	8.0%	7.1%
Currency strategies				0.0%	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
Total economic exposure			\$132,624,350	135.0%	

*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.

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.

DISCLAIMER: This document has been provided for information purposes only. The content of this document is not intended as a substitute for specific professional advice on investments, financial planning or any other matter.

While the information provided in this document is stated accurately to the best of our knowledge and belief, New Zealand Funds Management Limited, its directors, employees and related parties accept no liability or responsibility for any loss, damage, claim or expense suffered or incurred by any party as a result of reliance on the information provided and opinions expressed in this document except as required by law.