

Manager insight – 31 October 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 declined in value as share markets gave up some of their recent gains. Year to date the Portfolios have returned between -0.01% to 2.32%¹.

NZ Funds has always ran multi-manager, multi-style, diversified growth portfolios. In implementing this strategy the selection of each manager is crucial. It is simply not realistic to expect a manager to outperform its benchmark every month, especially if it has a disciplined investment approach. The traditional approach is therefore to select managers that have a defined style. The most common styles are value, growth, growth at a reasonable price and index-plus managers.

NZ Funds was one of the first managers in New Zealand to introduce the concept of a core (or index plus), growth and value manager within the global equity allocation. The combination of AllianceBernstein, T Rowe Price and SSgA that the Portfolios held two years ago was a classic example of this mix. This strategy has recently been refined with the selection of managers being more consistent with NZ Funds' goals approach and the capital protection strategy. Previously, the managers tended to be index centric, which meant that their starting point was the index and changes were made from that point. All of the managers now start with a clean sheet of paper and only buy those shares that meet their investment criteria.

A number of the managers (Tweedy Browne, Odey and Platinum) also have the ability to hold cash should they not be able to find an appropriate investment. These managers have a dual objective of protecting capital as well as providing long-term capital growth. Each manager, however, still has a distinctive style – Tweedy Browne will only buy shares with high sustainable dividends; Odey takes an 'owners' approach and will only buy shares in a company if it is prepared to buy the whole company; and Platinum looks to buy companies that have suffered from temporary setbacks and are likely to recover strongly. The remaining manager is T Rowe Price and although this portfolio will always be fully invested, it reflects the best picks of T Rowe Price's analysts.

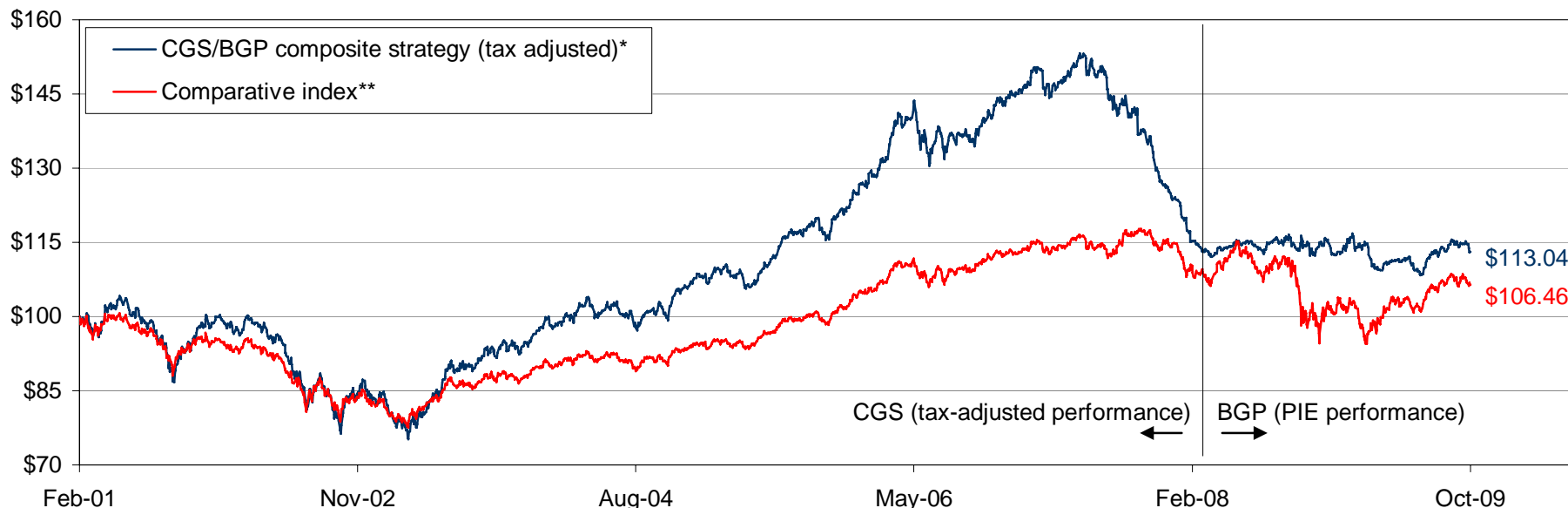
Once selected it is important that the managers are regularly reviewed to ensure they are still achieving their objectives in the Portfolio. This does not mean they necessarily have to outperform their index. Tweedy and Platinum were chosen for their defensive nature and we would expect them to underperform in a strong positive share market. In fact, it would be a concern that their style was drifting if they outperformed in this situation. Similarly, T Rowe Price should outperform in a positive market environment but underperform in a negative market. NZ Funds is looking at appointing additional managers to the Growth Portfolios. Each new appointment will have a distinctive but different style. One manager currently under review is Eclectica Asset Management. This manager tends to perform positively in negative market environments, although again it would be expected to underperform in positive periods.

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.

Balanced Growth Portfolio

Performance to 31 October 2009 for CGS/BGP composite strategy* (Part 1)

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



Comparison	BGP 1 month	BGP 3 month	BGP 6 month	BGP 1 year
CGS/BGP (tax adjusted)*	-1.82%	0.46%	1.71%	-0.62%
Comparative index**	-0.98%	0.59%	3.65%	5.11%

Composite 2 year pa	Composite 5 year pa	Composite 7 year pa	Composite since inception pa	Composite maximum drawdownx
-8.95%	2.05%	4.28%	1.42%	-29.24%
-4.80%	2.98%	3.56%	0.72%	-22.91%

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

Tax-adjusted performance to 31 October 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 31 October 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

x 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



Portfolio summary as at 31 October 2009

Portfolio summary

Yield ¹	5.4%
Income strategies	49%
Growth strategies	52%
Currency strategies	0%
Total economic exposure	101%

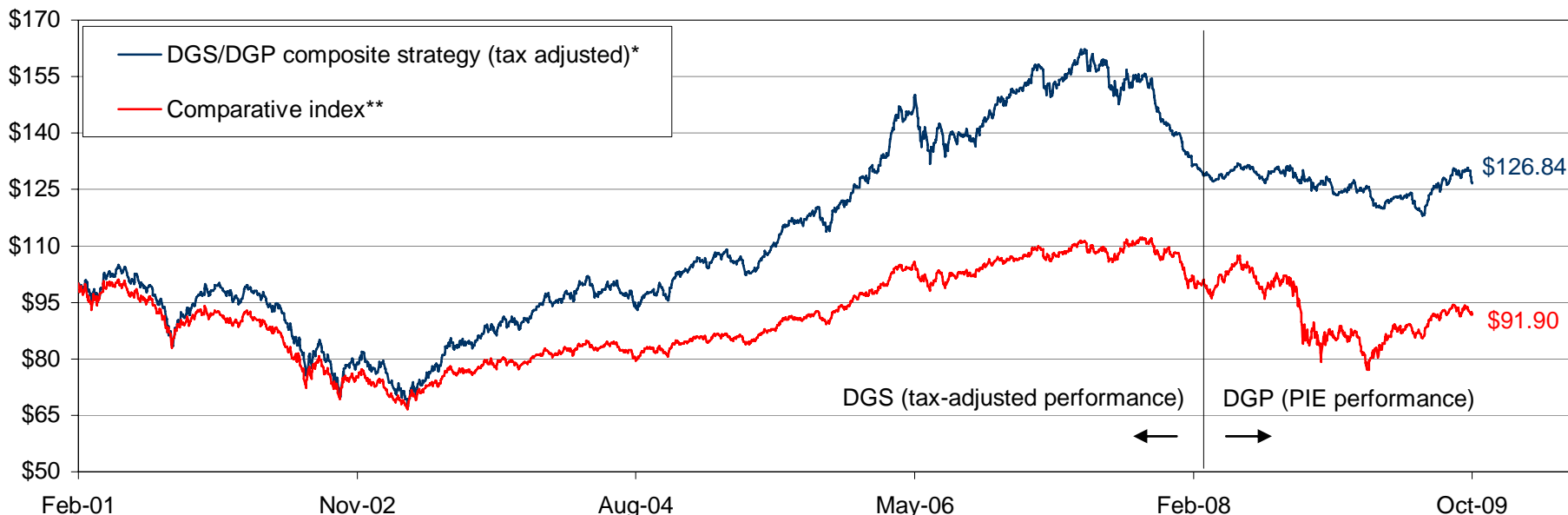
Strategy	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield ¹
Income strategies				48.5%	
Money market	NZ Funds	Cash	\$4,704,199	16.5%	2.8%
United States government bonds	NZ Funds	Government bonds	\$5,345,680	18.8%	6.2%
German government bonds	NZ Funds	Government bonds	\$1,083,391	3.8%	5.9%
United Kingdom government bonds	NZ Funds	Government bonds	\$1,069,136	3.8%	6.3%
New Zealand government bonds	NZ Funds	Government bonds	\$1,054,881	3.7%	5.7%
Loans (via Private Loan Trust)	NZ Funds	New Zealand direct loans	\$522,528	1.8%	7.3%
Global corporate bonds	NZ Funds	Corporate bonds	\$57,021	0.2%	5.6%
Growth strategies				52.4%	
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$3,734,849	13.1%	7.0%
Global shares – Defensive	Platinum	Global shares	\$2,822,519	9.9%	7.1%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$2,722,733	9.6%	7.1%
Global shares – Active	Odey	Global shares	\$2,751,243	9.7%	1.9%
Global shares – Growth	T Rowe Price	Global shares	\$2,622,947	9.2%	5.2%
Global shares – Index exposure	NZ Funds	Global shares	\$256,593	0.9%	5.5%
Equity put options	NZ Funds	Global shares	\$28,510	0.1%	n/a
Currency strategies				0.0%	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
Total economic exposure			\$28,776,230	100.9%	

¹ 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

Performance to 31 October 2009 for DGS/DGP composite strategy* (Part 1)

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



Comparison	DGP 1 month	DGP 3 month	DGP 6 month	DGP 1 year
DGS/DGP (tax adjusted)*	-2.36%	1.47%	3.52%	0.16%
Comparative index**	-1.29%	0.66%	5.29%	4.45%

Composite 2 year pa	Composite 5 year pa	Composite 7 year pa	Composite since inception pa	Composite maximum drawdownx
-9.37%	5.10%	7.03%	2.77%	-35.81%
-9.41%	2.12%	2.97%	-0.97%	-34.02%

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

Tax-adjusted performance to 31 October 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 31 October 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

- x 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



Portfolio summary as at 31 October 2009

Portfolio summary

Yield ¹	6.8%
Income strategies	50%
Growth strategies	71%
Currency strategies	0%
Total economic exposure	121%

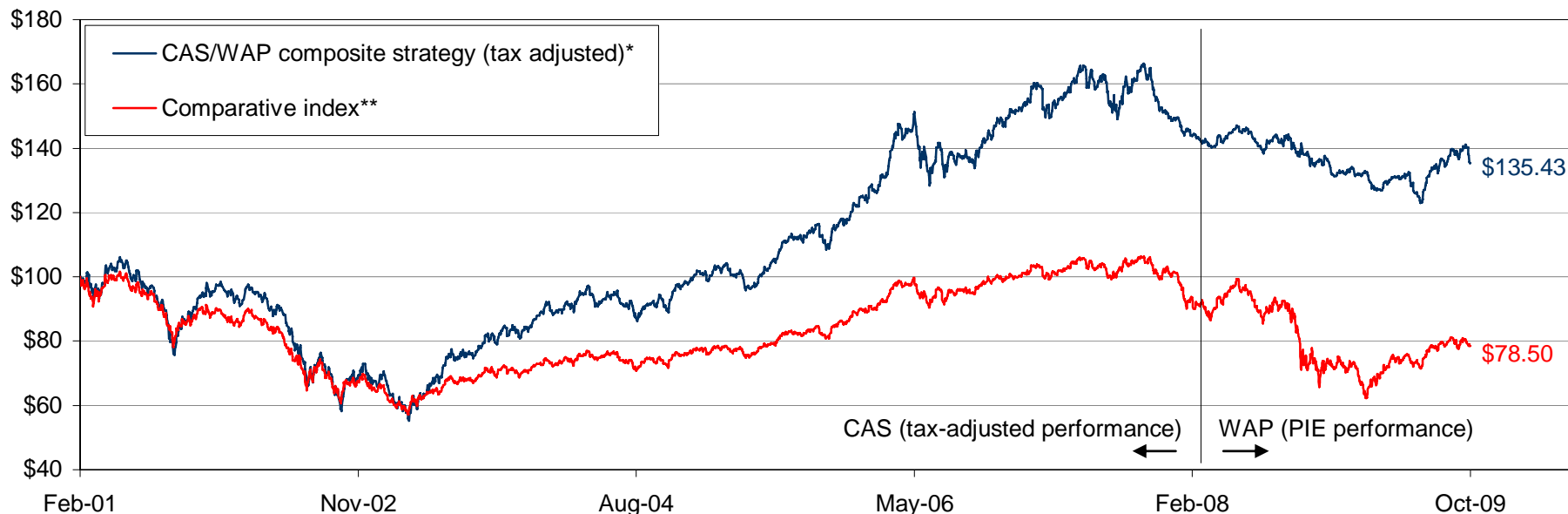
Strategy	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield ¹
Income strategies				50.2%	
Money market	NZ Funds	Cash	\$8,173,893	8.7%	2.8%
United States government bonds	NZ Funds	Government bonds	\$23,018,435	24.5%	6.2%
New Zealand government bonds	NZ Funds	Government bonds	\$4,509,734	4.8%	5.7%
German government bonds	NZ Funds	Government bonds	\$4,462,758	4.8%	5.9%
United Kingdom government bonds	NZ Funds	Government bonds	\$4,415,781	4.7%	6.3%
Loans (via Private Loan Trust)	NZ Funds	New Zealand direct loans	\$2,297,454	2.4%	7.3%
Global corporate bonds	NZ Funds	Corporate bonds	\$281,858	0.3%	5.6%
Growth strategies				70.9%	
Global shares – Index exposure	NZ Funds	Global shares	\$18,884,512	20.1%	5.5%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$12,119,911	12.9%	7.0%
Global shares – Growth	T Rowe Price	Global shares	\$9,207,374	9.8%	5.2%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$9,113,421	9.7%	7.1%
Global shares – Active	Odey	Global shares	\$8,643,657	9.2%	1.9%
Global shares – Defensive	Platinum	Global shares	\$8,549,704	9.1%	7.1%
Equity put options	NZ Funds	Global shares	\$93,953	0.1%	n/a
Currency strategies				0.0%	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
Total economic exposure			\$113,772,445	121.1%	

¹ 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 31 October 2009 for CAS/WAP composite strategy* (Part 1)

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



Comparison	WAP 1 month	WAP 3 month	WAP 6 month	WAP 1 year
CAS/WAP (tax adjusted)*	-2.59%	1.95%	4.01%	-1.03%
Comparative index**	-1.59%	0.71%	6.91%	3.57%

Composite 2 year pa	Composite 5 year pa	Composite 7 year pa	Composite since inception pa	Composite maximum drawdownx
-9.37%	7.83%	10.12%	3.55%	-47.91%
-14.01%	1.14%	2.27%	-2.74%	-43.70%

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

Tax-adjusted performance to 31 October 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 31 October 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

x 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



Portfolio summary as a 31 October 2009

Portfolio summary

Yield ¹	7.9%
Income strategies	49%
Growth strategies	90%
Currency strategies	0%
Total economic exposure	139%

Strategy	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield ¹
Income strategies				48.6%	
Money market	NZ Funds	Cash	\$7,775,370	7.2%	2.8%
United States government bonds	NZ Funds	Government bonds	\$26,642,876	24.5%	6.2%
New Zealand government bonds	NZ Funds	Government bonds	\$5,219,829	4.8%	5.7%
German government bonds	NZ Funds	Government bonds	\$5,165,456	4.8%	5.9%
United Kingdom government bonds	NZ Funds	Government bonds	\$5,111,082	4.7%	6.3%
Loans (via Private Loan Trust)	NZ Funds	New Zealand direct loans	\$2,628,083	2.4%	7.3%
Global corporate bonds	NZ Funds	Corporate bonds	\$326,239	0.3%	5.6%
Growth strategies				89.9%	
Global shares – Index exposure	NZ Funds	Global shares	\$41,867,377	38.5%	5.5%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$13,702,051	12.6%	7.0%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$12,179,601	11.2%	7.1%
Global shares – Growth	T Rowe Price	Global shares	\$10,548,404	9.7%	5.2%
Global shares – Defensive	Platinum	Global shares	\$9,787,179	9.0%	7.1%
Global shares – Active	Odey	Global shares	\$9,569,686	8.8%	1.9%
Equity put options	NZ Funds	Global shares	\$108,746	0.1%	n/a
Currency strategies				0.0%	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
Total economic exposure			\$150,631,980	138.5%	

¹ 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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