

Manager insight - 31 December 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 increased in value by between 0.14% to 1.04%¹. The Portfolios have appreciated by between 0.80% to 5.74%¹ for the year.

The Growth Portfolios have recently invested in commodity futures. This is a new asset class which adds diversity to the Portfolios. Commodity futures are contracts to either buy or sell a particular commodity at some point in the future. In buying these futures contracts the Growth Portfolios are not buying the commodities themselves but rather the right to purchase them in the future. These contracts are then sold just prior to maturity so that the Portfolios never actually own the commodities. These futures are traded on exchanges and include most of the globally traded commodities. They fall into five major categories: energy (eg oil or natural gas); industrial metals (eg copper or zinc); precious metals (eg silver or gold); agricultural commodities (eg wheat or corn); and livestock (eg lean hogs or live cattle). The futures contract which the Growth Portfolios have purchased is a composite index of all of the above commodities, weighted on world production. This index is designed by S&P and Goldman Sachs. Commodity futures add diversity to the Growth Portfolios as they have different return drivers from shares or long-term interest rates. The major drivers of commodity futures are the price of the commodity itself and whether the current spot price of the commodity is below the future price.

Keynes was one of the first economists to consider commodity futures as a separate asset class. He noted that typically the future price of a commodity traded below its current spot price. However, this did not reflect an expectation that the commodity price would fall. Instead, he noted that more people wanted to sell commodities forward than buy them. He saw two reasons for this – producers of commodities wanted to sell commodities forward so that they had a guaranteed price for their product. This gave them the confidence to spend capital to produce the commodity. Users of the commodity also wanted to sell futures forward as this enabled them to hold the physical inventory to meet production without the financial risk that the commodity's price would fall.

Keynes therefore opined that producers and users would pay an insurance premium to encourage investors to buy futures and take on the price risk.

While commodity futures provide positive returns over the long term, they are also a very volatile investment. The supply of most commodities is fixed over the short to medium term. Consequently, a change in demand has to be met with a change in price. In implementing the commodity strategy in the Growth Portfolios we have therefore applied the capital protection overlay. This will mean the allocation in the Growth Portfolios will be removed if the quantitative models suggest that commodity prices are in a declining trend.

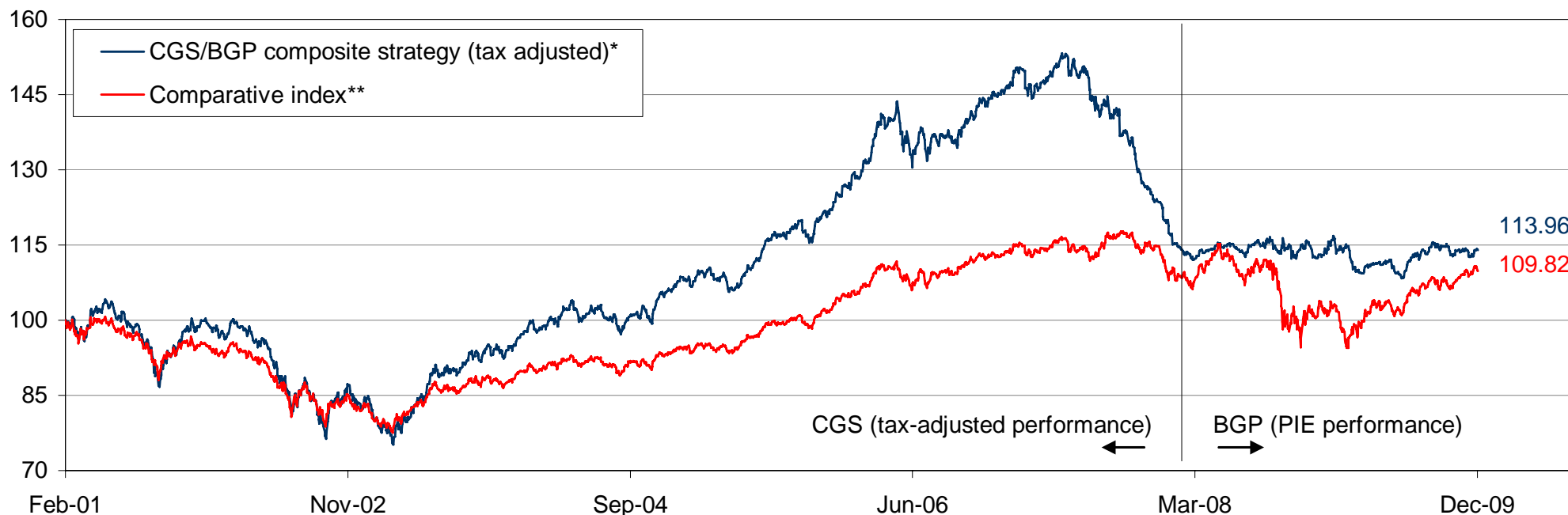
¹ Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

Balanced Growth Portfolio



Tax-adjusted performance to 31 December 2009 for CGS/BGP composite strategy* (Part 1)

BGP performance attribution	1 month	3 month	6 month
Positive	Global shares	Global shares	Australasian shares; global shares
Neutral	Cash; commodities	Cash	Cash
Negative	Bonds	Bonds; equity options	Bonds



Comparison	BGP 1 month	BGP 3 month	BGP 6 month	BGP 1 year
CGS/BGP (tax adjusted)*	0.14%	-1.03%	4.04%	0.80%
Comparative index**	0.76%	2.14%	7.57%	7.30%

Composite 2 year pa	Composite 5 year pa	Composite 7 year pa	Composite since inception pa	Composite maximum drawdown*
-3.98%	0.98%	4.73%	1.48%	-29.24%
-2.16%	3.02%	4.24%	1.06%	-22.91%

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

Tax-adjusted performance to 31 December 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 December 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.

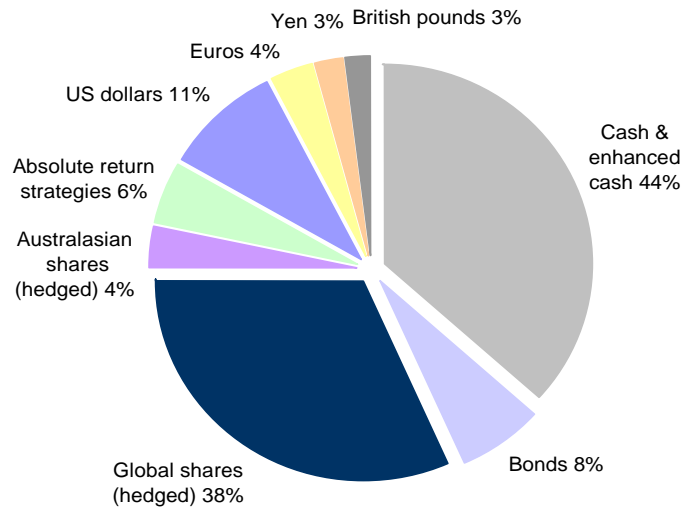
Maximum drawdown

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.

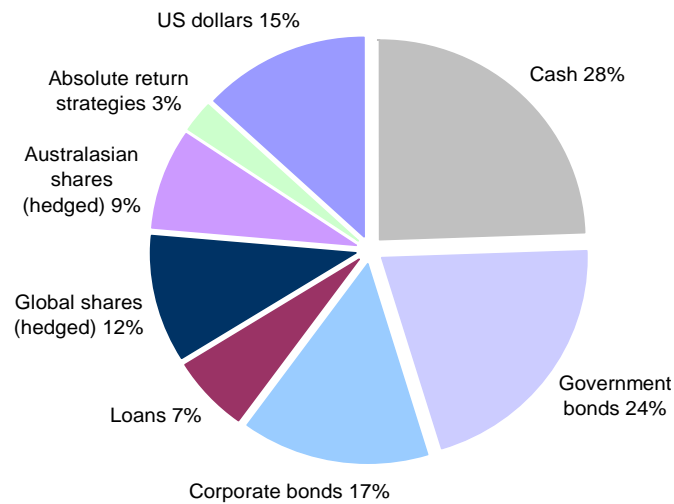
Balanced Growth Portfolio

Asset allocations

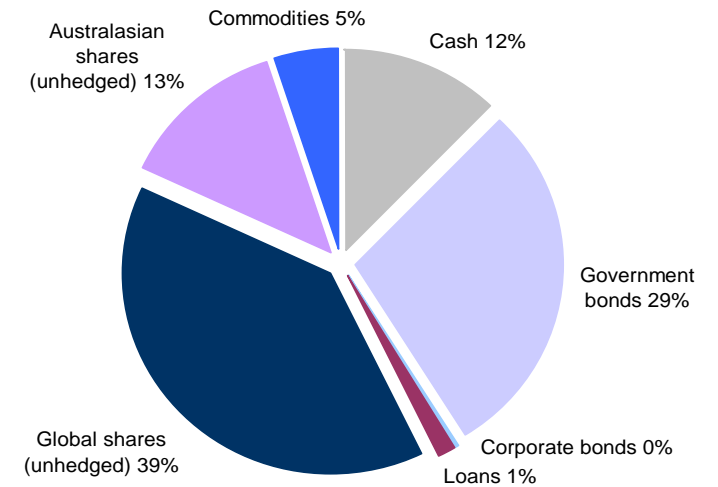
January 2008



January 2009



November 2009



Balanced Growth Portfolio



Complete portfolio as at 30 November 2009

Portfolio summary

Yield ¹	5.4%
Income strategies	49%
Growth strategies	50%
Currency strategies	0%
Total economic exposure	99%

Strategy / Security	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield ¹
Income strategies				48.7%	
Money market	NZ Funds	Cash	\$5,300,040	18.4%	2.7%
United States government bonds	NZ Funds	Government bonds	\$5,184,822	18.0%	5.9%
German government bonds	NZ Funds	Government bonds	\$1,157,943	4.0%	5.6%
United Kingdom government bonds	NZ Funds	Government bonds	\$1,002,399	3.5%	5.9%
New Zealand government bonds	NZ Funds	Government bonds	\$864,137	3.0%	5.6%
Loans (via Private Loan Trust)	Fidelity	New Zealand direct loans	\$396,299	1.4%	7.3%
Global corporate bonds	NZ Funds	Corporate bonds	\$106,577	0.4%	6.4%
Growth strategies				50.1%	
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$3,707,147	12.9%	7.1%
Global shares – Defensive	Platinum	Global shares	\$2,851,652	9.9%	7.1%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$2,840,130	9.9%	6.8%
Global shares – Growth	T Rowe Price	Global shares	\$2,707,629	9.4%	5.2%
Global shares – Active	Odey	Global shares	\$2,678,825	9.3%	3.8%
Commodities	S&P Goldman Sachs	Commodity futures	\$1,440,228	5.0%	n/a
Equity put options	NZ Funds	Global shares	\$14,402	0.1%	n/a
Global shares – Index exposure	NZ Funds	Global shares	-\$1,814,688	-6.3%	5.4%
Currency strategies				0.0%	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
Total economic exposure			\$28,437,543	98.7%	

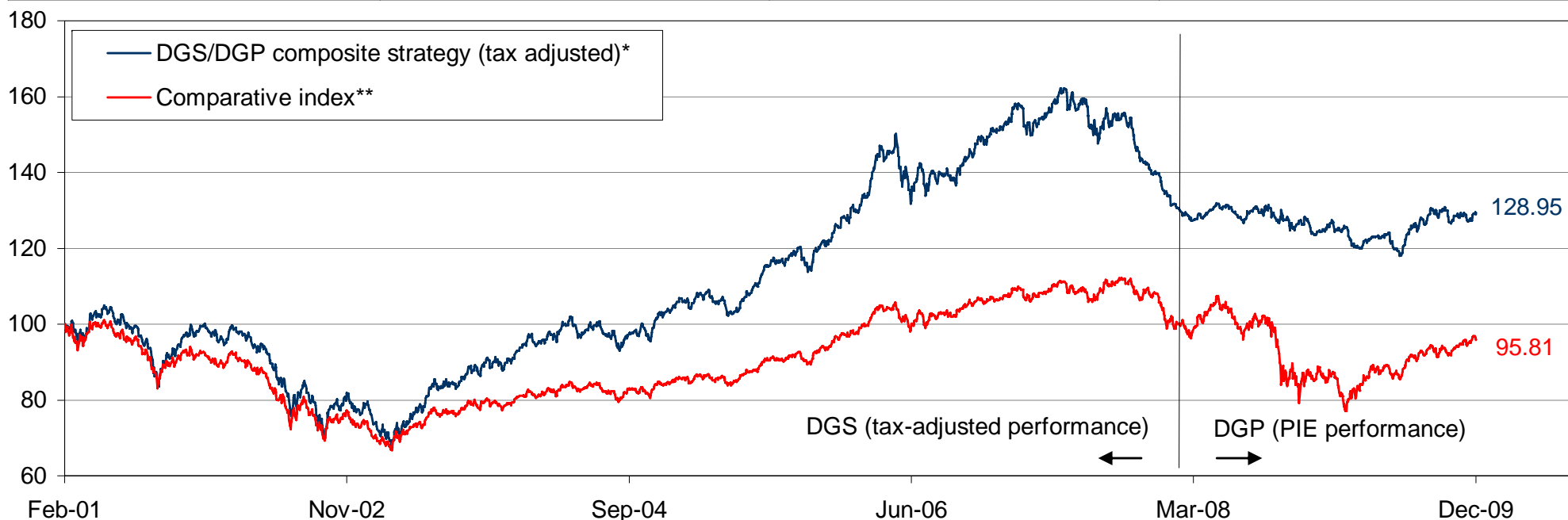
¹ The yield calculation represents an estimate of the yield on the Portfolio, calculated using the most recent information provided by the investment managers involved in managing the Portfolio, hedged back to New Zealand dollars where appropriate. It is not calculated 'as at' any particular date as 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



Tax-adjusted performance to 31 December 2009 for DGS/DGP composite strategy* (Part 1)

DGP performance attribution	1 month	3 month	6 month
Positive	Global shares	Global shares	Australasian shares; global shares
Neutral	Cash; commodities	Cash	Cash
Negative	Bonds	Bonds; equity options	Bonds



Comparison	DGP 1 month	DGP 3 month	DGP 6 month	DGP 1 year
DGS/DGP (tax adjusted)*	0.35%	-0.74%	7.47%	3.69%
Comparative index**	1.32%	2.91%	10.07%	10.16%

Composite 2 year pa	Composite 5 year pa	Composite 7 year pa	Composite since inception pa	Composite maximum drawdown*
-3.99%	3.86%	7.75%	2.91%	-35.81%
-5.86%	2.21%	3.98%	-0.48%	-34.02%

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

Tax-adjusted performance to 31 December 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 December 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.

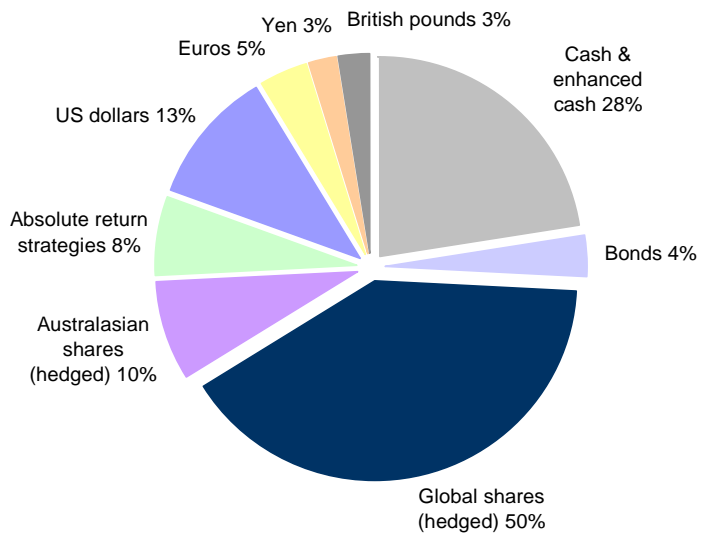
Maximum drawdown

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.

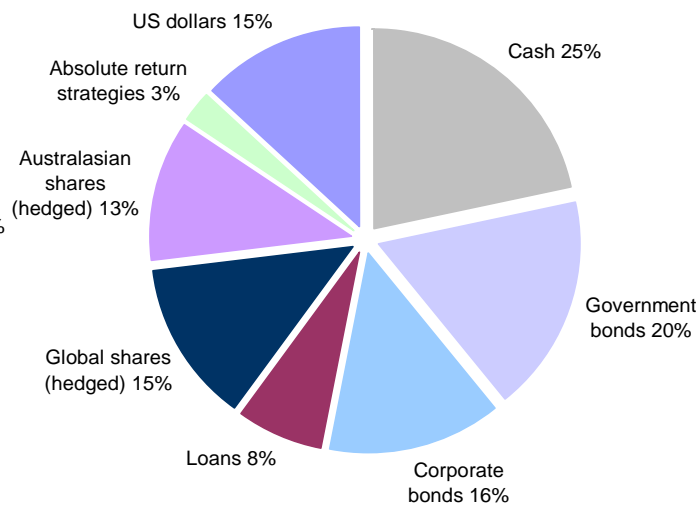
Diversified Growth Portfolio

Asset allocations

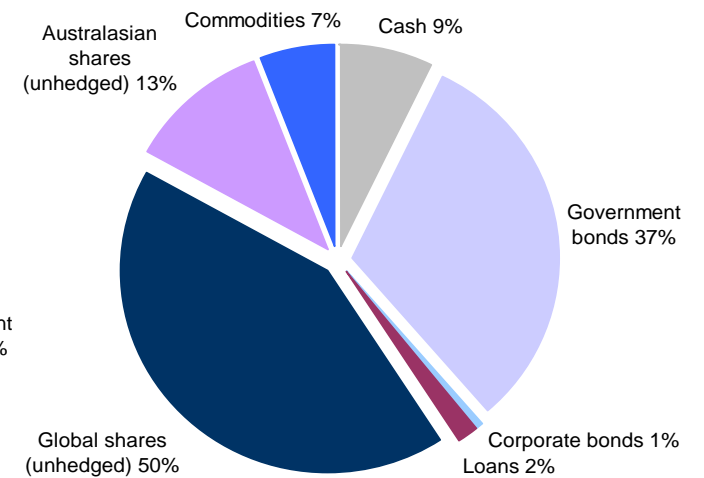
January 2008



January 2009



November 2009



Diversified Growth Portfolio



Complete portfolio as at 30 November 2009

Portfolio summary

Yield ¹	6.3%
Income strategies	48%
Growth strategies	70%
Currency strategies	0%
Total economic exposure	118%

Strategy / Security	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield ¹
Income strategies				48.1%	
Money market	NZ Funds	Cash	\$8,019,829	8.6%	2.7%
United States government bonds	NZ Funds	Government bonds	\$21,877,347	23.5%	5.9%
German government bonds	NZ Funds	Government bonds	\$4,877,175	5.2%	5.6%
United Kingdom government bonds	NZ Funds	Government bonds	\$4,224,398	4.5%	5.9%
New Zealand government bonds	NZ Funds	Government bonds	\$3,646,224	3.9%	5.6%
Loans (via Private Loan Trust)	Fidelity	New Zealand direct loans	\$1,746,398	1.9%	7.3%
Global corporate bonds	NZ Funds	Corporate bonds	\$447,618	0.5%	6.4%
Growth strategies				69.9%	
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$12,001,767	12.9%	7.1%
Global shares – Index exposure	NZ Funds	Global shares	\$10,257,920	11.0%	5.4%
Global shares – Growth	T Rowe Price	Global shares	\$9,884,905	10.6%	5.2%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$9,511,890	10.2%	6.8%
Global shares – Defensive	Platinum	Global shares	\$8,579,352	9.2%	7.1%
Global shares – Active	Odey	Global shares	\$8,392,844	9.0%	3.8%
Commodities	S&P Goldman Sachs	Commodity futures	\$6,527,767	7.0%	n/a
Equity put options	NZ Funds	Global shares	\$46,627	0.1%	n/a
Currency strategies				0.0%	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
Total economic exposure			\$110,042,061	118.0%	

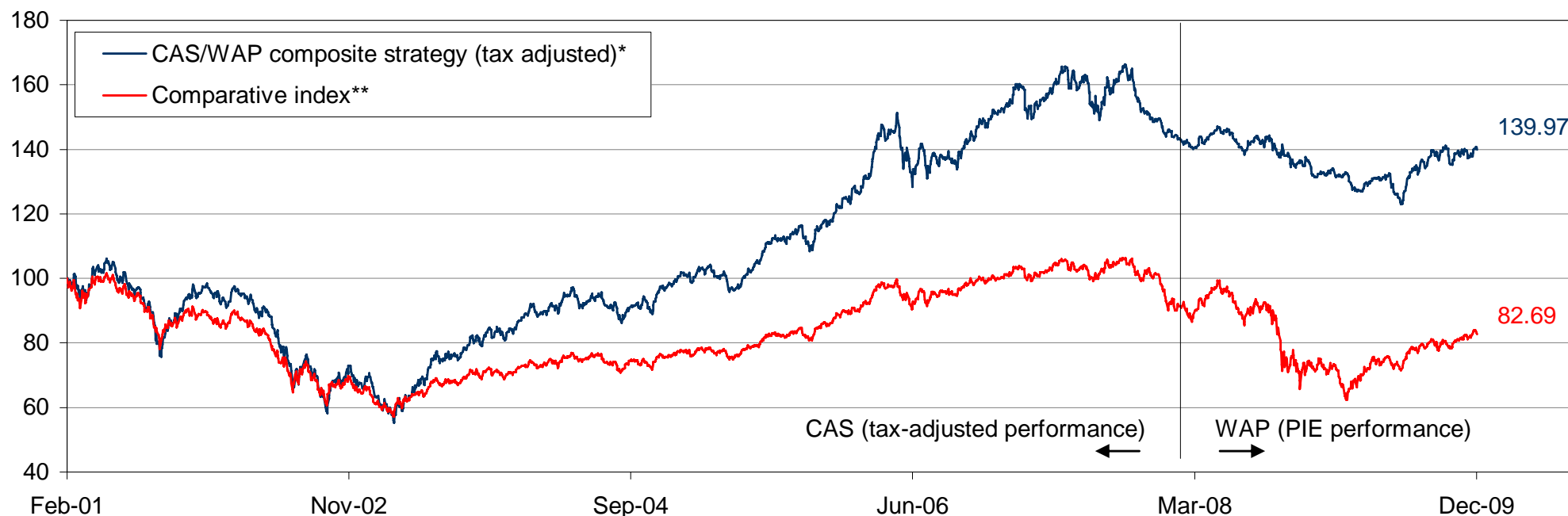
¹ The yield calculation represents an estimate of the yield on the Portfolio, calculated using the most recent information provided by the investment managers involved in managing the Portfolio, hedged back to New Zealand dollars where appropriate. It is not calculated 'as at' any particular date as 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 December 2009 for CAS/WAP composite strategy* (Part 1)

WAP performance attribution	1 month	3 month	6 month
Positive	Global shares	Global shares	Australasian shares; global shares
Neutral	Cash; commodities	Cash	Cash
Negative	Bonds	Bonds; equity options	Bonds



Comparison	WAP 1 month	WAP 3 month	WAP 6 month	WAP 1 year
CAS/WAP (tax adjusted)*	1.04%	0.68%	10.87%	5.74%
Comparative index**	1.87%	3.66%	12.58%	12.96%

Composite 2 year pa	Composite 5 year pa	Composite 7 year pa	Composite since inception pa	Composite maximum drawdownx
-3.25%	6.57%	11.29%	3.87%	-47.91%
-9.64%	1.28%	3.61%	-2.12%	-43.70%

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

Tax-adjusted performance to 31 December 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 December 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.

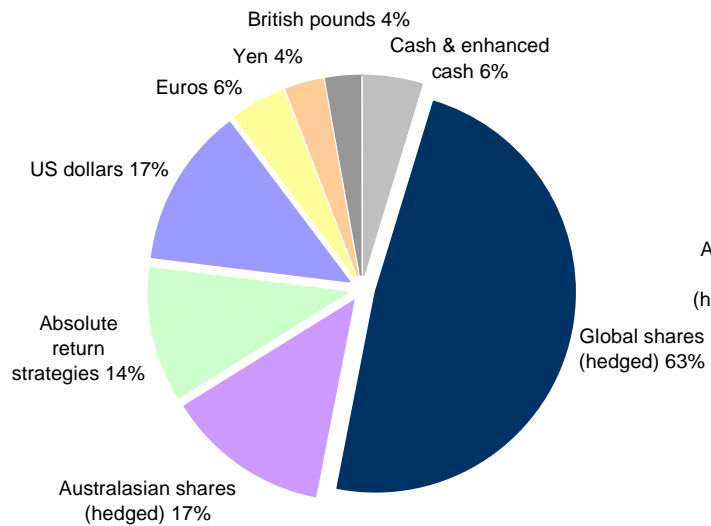
Maximum drawdown

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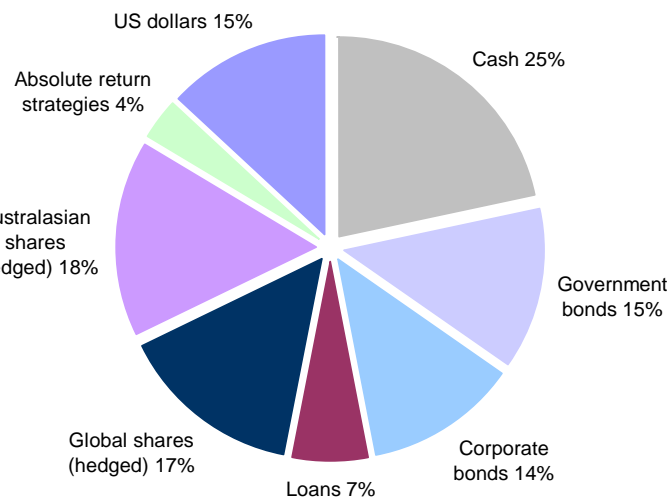
Wealth Appreciation Portfolio

Asset allocations

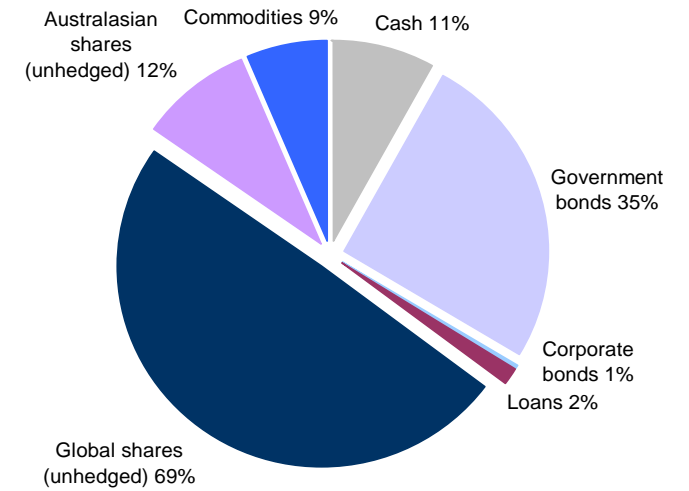
January 2008



January 2009



November 2009



Wealth Appreciation Portfolio



Complete portfolio as a 30 November 2009

Portfolio summary

Yield ¹	6.9%
Income strategies	49%
Growth strategies	90%
Currency strategies	0%
Total economic exposure	139%

Strategy / Security	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield ¹
Income strategies				48.8%	
Money market	NZ Funds	Cash	\$12,680,157	11.3%	2.7%
United States government bonds	NZ Funds	Government bonds	\$24,978,787	22.3%	5.9%
German government bonds	NZ Funds	Government bonds	\$5,577,025	5.0%	5.6%
United Kingdom government bonds	NZ Funds	Government bonds	\$4,825,192	4.3%	5.9%
New Zealand government bonds	NZ Funds	Government bonds	\$4,151,910	3.7%	5.6%
Loans (via Private Loan Trust)	Fidelity	New Zealand direct loans	\$1,996,899	1.8%	7.3%
Global corporate bonds	NZ Funds	Corporate bonds	\$516,183	0.5%	6.4%
Growth strategies				89.9%	
Global shares – Index exposure	NZ Funds	Global shares	\$33,327,492	29.7%	5.4%
Australasian shares – High dividend yield	NZ Funds	Australasian shares	\$13,532,982	12.1%	7.1%
Global shares – High dividend yield	Tweedy Browne	Global shares	\$12,680,157	11.3%	6.8%
Global shares – Growth	T Rowe Price	Global shares	\$11,221,378	10.0%	5.2%
Global shares – Defensive	Platinum	Global shares	\$10,099,240	9.0%	7.1%
Commodities	S&P Goldman Sachs	Commodity futures	\$10,099,240	9.0%	n/a
Global shares – Active	Odey	Global shares	\$9,874,812	8.8%	3.8%
Equity put options	NZ Funds	Global shares	\$56,107	0.1%	n/a
Currency strategies				0.0%	
Currency	NZ Funds	NZ dollar/US dollar	\$0	0.0%	n/a
Total economic exposure			\$155,617,560	138.7%	

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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