

## MANAGER INSIGHT – 30 JUNE 2010

The driver of the Portfolio's performance is the level of interest rates offered on the call deposits it holds with a range of New Zealand banks. In turn, the returns from these call deposits are driven by New Zealand's Official Cash Rate which is set by the Reserve Bank of New Zealand.

The Portfolio has returned 0.18%<sup>1</sup> for June versus the ANZ Call Index return of 0.22%<sup>2</sup>. Over the past 12 months it has returned 2.22%<sup>1</sup> versus the ANZ Call Index return of 2.55%<sup>2</sup>.

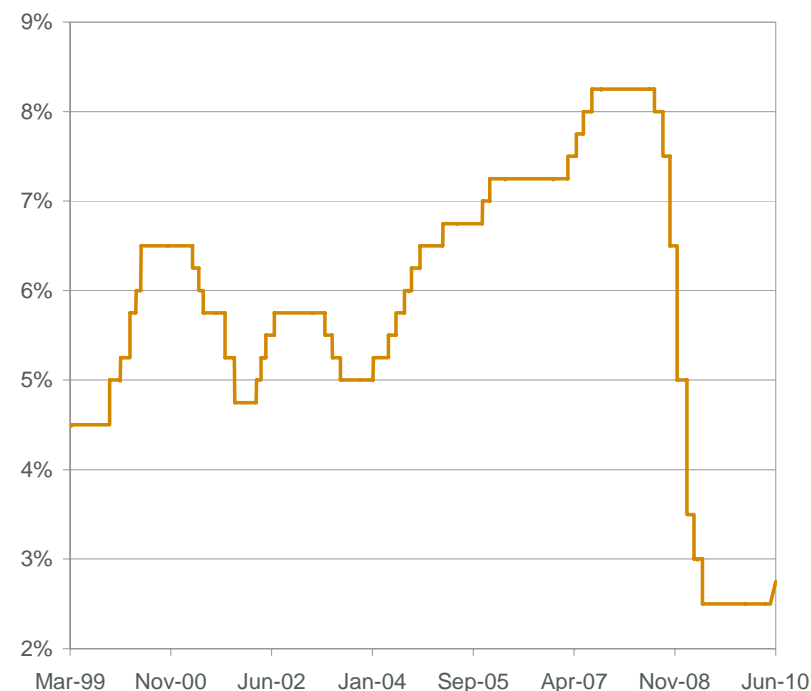
At the start of June, the Reserve Bank raised the Official Cash Rate by 25 basis points to 2.75%. This is still a low rate by historic standards, as shown in the accompanying graph, but signals the start of a tightening cycle in interest rates. This change in stance has been triggered by the fact that "the economy has entered its second year of recovery with growth becoming more broad-based" and as such there is no longer the need to provide as much stimulus to the economy via low interest rates.

The Official Cash Rate is expected to continue to rise over the coming months, with the market currently predicting another 25 basis point rate hike in late July and 100 basis points the next year. Relative to previous tightening cycles, the Official Cash Rate is not expected to increase as much, with a neutral rate of around 5.5% predicted.

The Portfolio remains invested in call deposits with four New Zealand banks. This provides diversified liquid bank exposures to which the Crown Deposit Guarantee Scheme is applied. The Scheme is due to end in October this year

which will allow the Portfolio to invest back into bank bills with these same banks. This will boost the running yield of the Portfolio above that of the Official Cash Rate, while maintaining the same diversified liquid bank exposures.

New Zealand Official Cash Rate (OCR)

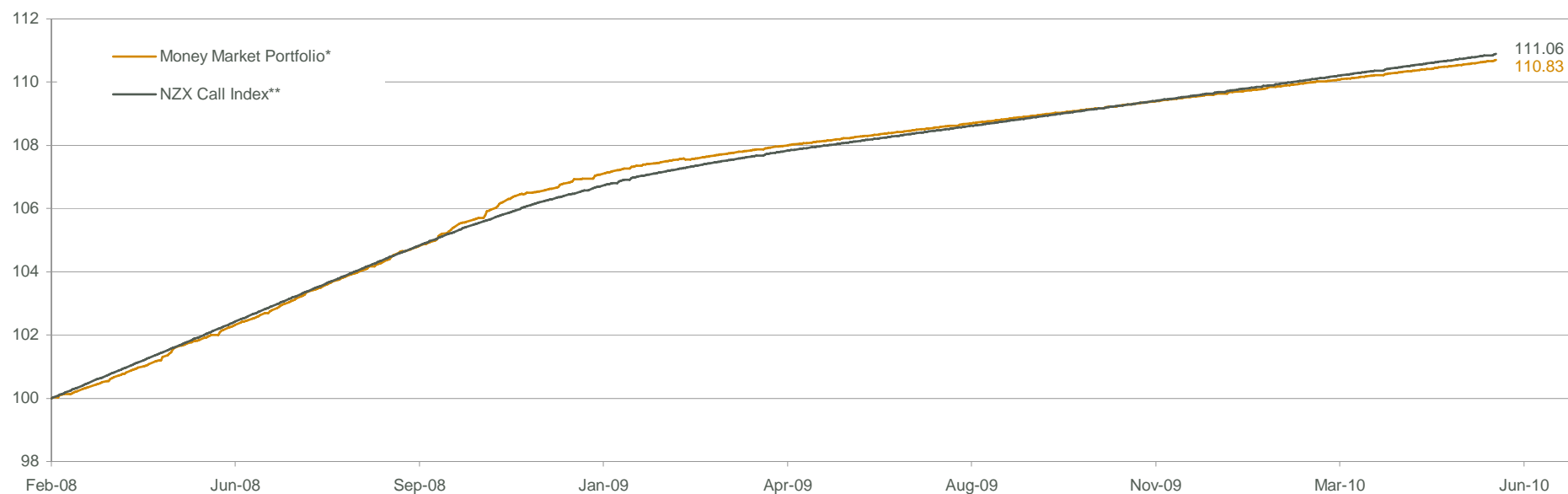


Source: Bloomberg.

<sup>1</sup> 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. <sup>2</sup> Source: Bloomberg.

## PERFORMANCE SINCE INCEPTION (28 FEBRUARY 2008) TO 30 JUNE 2010 (PART 1)

MMP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	Interest rates increasing	Running yield	Running yield
Neutral	n/a	Interest rate unchanged	Interest rate unchanged
Negative	n/a	n/a	n/a



COMPARISON	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	5 YEAR PA	7 YEAR PA	SINCE INCEPTION	MAXIMUM DRAWDOWN*
Portfolio*	0.18%	0.56%	1.09%	2.22%	3.88%	-	-	10.83%	-0.04%
NZX Call Index**	0.22%	0.64%	1.26%	2.55%	3.93%	-	-	11.06%	0.00%

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

### PERFORMANCE SINCE INCEPTION (28 FEBRUARY 2008) TO 30 JUNE 2010 (PART 2)

#### Money Market Portfolio

- \* 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.

#### Comparative Index

- \*\* The comparative index is the NZX Call Index. Source: Bloomberg.

#### Maximum Drawdown

- x Returns should be looked at in conjunction with the level of risk associated with an investment. For this reason, the 'maximum drawdown' is included for both the Portfolio and the comparison. The maximum drawdown is a measure of volatility and represents the largest decline in value experienced during the reporting period.

## COMPLETE PORTFOLIO AS AT 30 JUNE 2010

## PORTFOLIO SUMMARY

Number of bank exposures	4
Yield	2.6% <sup>1</sup>
Weighted average credit rating	A1+
Weighted average credit spread duration	0 days
Weighted average interest rate duration	0 days

SECTOR / SECURITY	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	WEIGHTED AVERAGE LIFE	S&P RATING	GROSS YIELD
<b>BANK DEPOSITS</b>					
ASB call account	\$11,247,873	25.2%	0 days	A1+	2.8%
Westpac call account	\$11,184,666	25.1%	0 days	A1+	2.8%
ANZ call account	\$11,102,798	24.9%	0 days	A1+	2.8%
BNZ call account	\$11,084,775	24.8%	0 days	A1+	2.8%
Westpac current account	\$28,337	0.1%	0 days	A1+	2.5%
<b>TOTAL ECONOMIC EXPOSURE<sup>2</sup></b>	<b>\$44,648,449</b>	<b>100.0%</b>			

<sup>1</sup> The yield is stated after the deduction of management, custodial and trustee fees. The yield is not the actual return of the Portfolio, nor is it a projection or forecast. <sup>2</sup> Total economic exposure represents the total economic value of a Portfolio, which is the gross asset value of the Portfolio adjusted for the effect of direct or indirect derivative positions taken by the Portfolio. Note: Rounding may affect the subtotals and totals.

For further information or to request a copy of the Investment Statement, please contact New Zealand Funds Management Limited.

Past performance is not necessarily an indication of future returns.

**DISCLAIMER:** These Portfolio Insights have 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 these Portfolio Insights except as required by law.