

## MANAGER INSIGHT – 31 MARCH 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 (RBNZ).

The Portfolio has returned 0.17%<sup>1</sup> for March versus the NZX Call Index return of 0.21%<sup>2</sup>. Over the past 12 months it has returned 2.24%<sup>1</sup> versus the NZX Call Index return of 2.85%<sup>2</sup>.

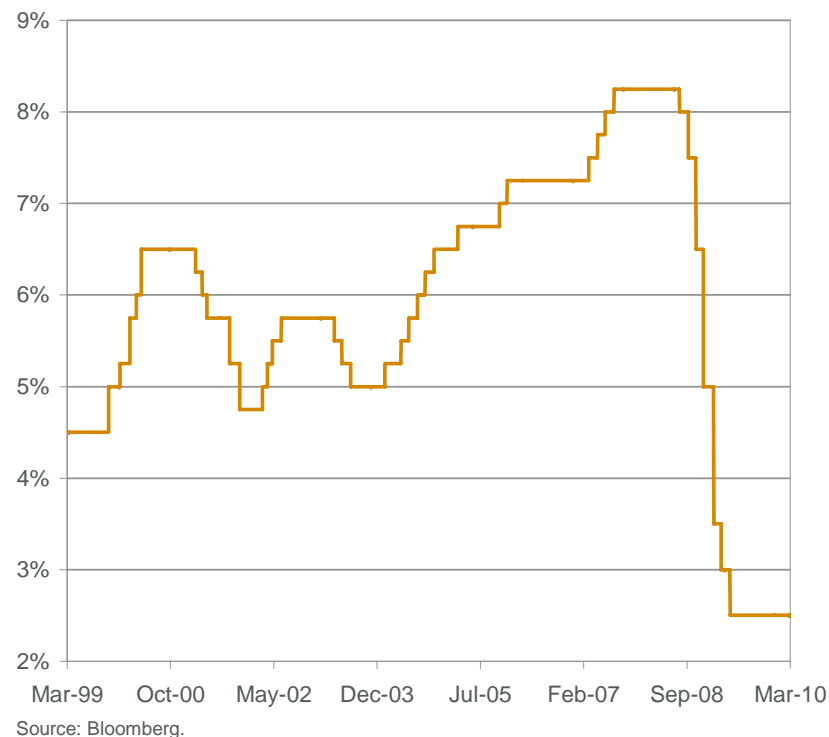
In March, the RBNZ again left the Official Cash Rate at 2.50%, the lowest it has been since inception in 1999. This represents a 5.75% decline from its highs when the Official Cash Rate was 8.25%, as shown in the accompanying chart. This rapid reduction in the Official Cash Rate was in response to the deteriorating global outlook, tightening credit conditions, widening interest rate spreads and continued contraction in the New Zealand economy. The stimulus provided by the low Official Cash Rate has contributed to the New Zealand economy recovering broadly as expected by the RBNZ and growth is predicted to pick-up further through 2010.

The likely move in the Official Cash Rate from here is up, with the market currently expecting the Official Cash Rate to increase by over 120bps by the end of this year. The Official Cash Rate the RBNZ will be targeting, as they remove the current policy stimulus, will be to a neutral level of around 5.50%. As the Official Cash Rate rises, the rates available from the call deposits will rise in line with the Official Cash Rate.

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. By investing in these call deposits, the

Portfolio will be able to benefit immediately from the Official Cash Rate hikes. These hikes are expected to start around June or July this year.

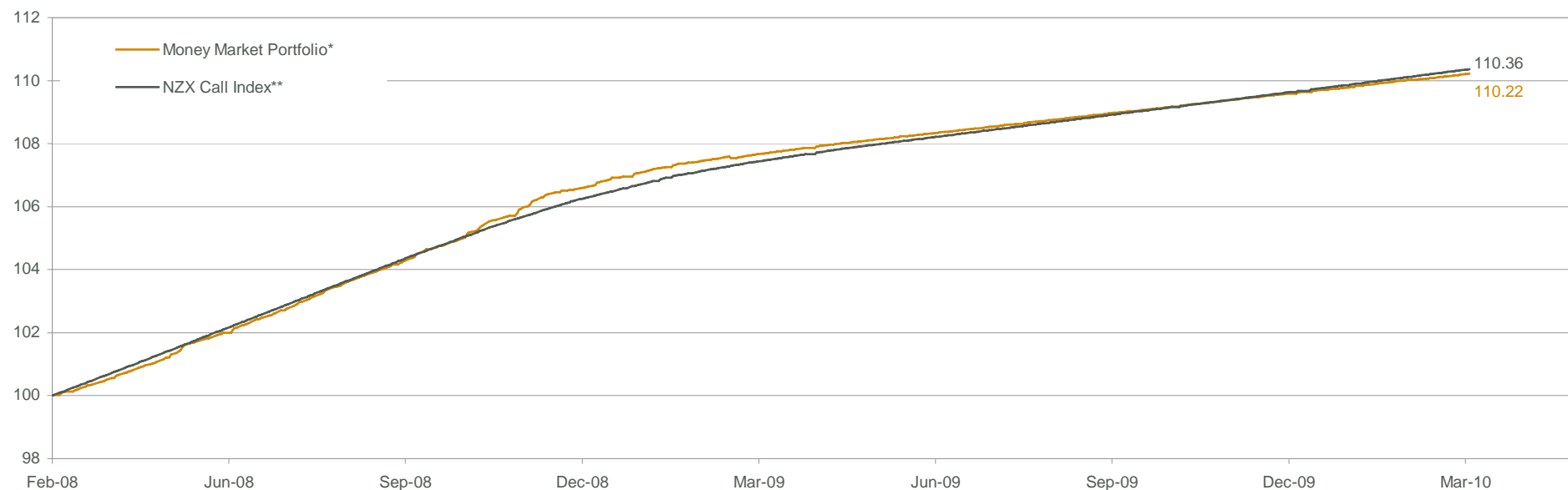
New Zealand Official Cash Rate (OCR)



<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 31 MARCH 2010 (PART 1)

MMP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	Running yield	Running yield	Running yield
Neutral	Interest rate unchanged	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*	0.17%	0.53%	1.09%	2.24%	4.70%	-	-	10.22%	-0.04%
NZX Call Index**	0.21%	0.62%	1.25%	2.57%	4.67%	-	-	10.36%	0.00%

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

## PERFORMANCE SINCE INCEPTION (28 FEBRUARY 2008) TO 31 MARCH 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 31 MARCH 2010

## PORTFOLIO SUMMARY

Number of bank exposures	4
Yield	2.3% <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>					
BNZ call account	\$12,686,106	25.3%	0 days	A1+	2.5%
Westpac call account	\$12,588,389	25.1%	0 days	A1+	2.5%
ANZ call account	\$12,406,848	24.8%	0 days	A1+	2.6%
ASB call account	\$12,401,558	24.7%	0 days	A1+	2.5%
Westpac current account	\$43,193	0.1%	0 days	A1+	2.5%
<b>TOTAL ECONOMIC EXPOSURE<sup>2</sup></b>	<b>\$50,126,095</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.