

## MANAGER INSIGHT – 31 MAY 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 0.20%<sup>1</sup> for May versus the NZX Call Index return of 0.21%<sup>2</sup>. Over the past 12 months it has returned 2.22%<sup>1</sup> versus the NZX Call Index return of 2.53%<sup>2</sup>.

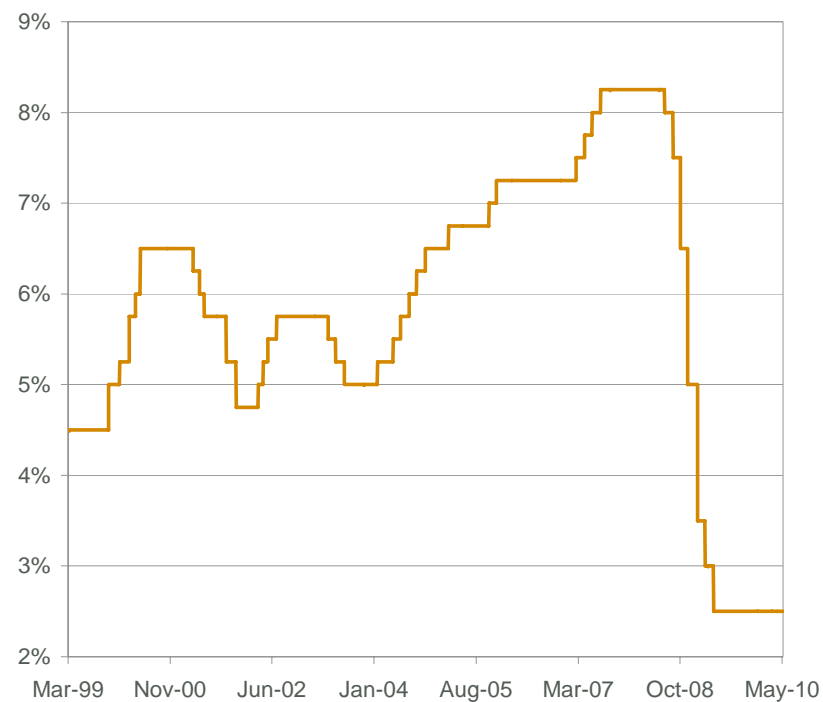
At the end of April, the Reserve Bank again left the Official Cash Rate at 2.50%. This is the lowest it has been since inception in 1999 and it has now been at this level for over a year. This level represents a 5.75% decline from its highs, as shown in the accompanying chart. This rapid reduction in 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 this low Official Cash Rate has contributed to the New Zealand economy recovering broadly as expected by the Reserve Bank, with growth predicted to pick up further through 2010.

The Official Cash Rate is expected to rise over the coming months (in June, the Reserve Bank increased the Official Cash Rate to 2.75%). The Reserve Bank will be targeting returning to a neutral Official Cash Rate of around 5.00%.

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)

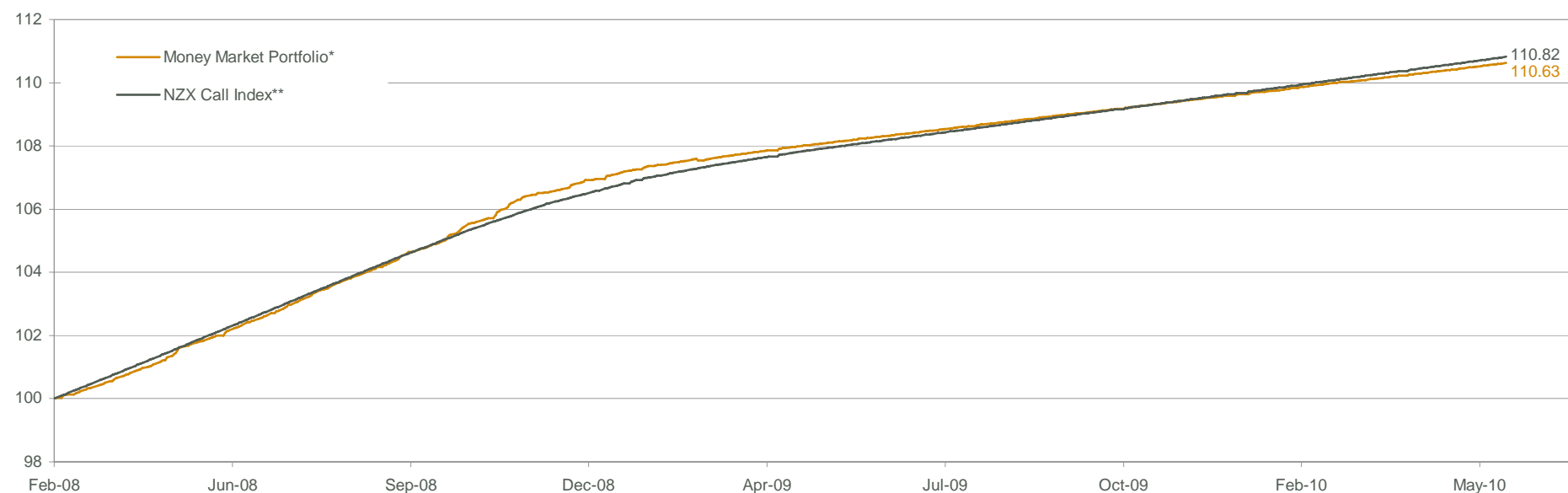


Source: Bloomberg.

<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 31 MAY 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*	0.20%	0.56%	1.09%	2.22%	4.14%	-	-	10.63%	-0.04%
NZX Call Index**	0.21%	0.63%	1.25%	2.53%	4.17%	-	-	10.82%	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 MAY 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 MAY 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>					
Westpac call account	\$11,682,321	25.2%	0 days	A1+	2.5%
ANZ call account	\$11,602,967	25.0%	0 days	A1+	2.6%
ASB call account	\$11,522,907	24.8%	0 days	A1+	2.5%
BNZ call account	\$11,382,848	24.5%	0 days	A1+	2.5%
Westpac currrent account	\$237,476	0.5%	0 days	A1+	2.5%
<b>TOTAL ECONOMIC EXPOSURE<sup>2</sup></b>	<b>\$46,428,519</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.

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