

Manager insight – 30 April 2009

The Mid Term Growth Portfolio produced a modestly positive return during April, appreciating 0.13%¹. In part, this is a reflection of the conservative positioning of the Portfolio. The forecast weak economic growth reduces the likelihood of inflation in the short term. Some commentators even argue that deflation is a bigger risk. As a result, this Portfolio is positioned to preserve capital. When the environment improves and the risk of inflation increases, the cash allocation will be reduced and the allocation to growth assets increased.

In some respects April was a repeat of March as share markets enjoyed their second month of good performance. This environment is not ideal for Tweedy Browne, one of the three managers in the hedged global shares allocation. As Tweedy Browne invests in companies with high dividend yields, its conservative investment style tends to outperform falling markets but can struggle to keep pace when share markets rise rapidly. To understand why this is the case it is necessary to appreciate the characteristics of high-dividend-yield companies. In tough times the dividend yield acts as a safety cushion. If the company does not cut its dividend payment, the share price decline increases the dividend yield until it becomes overwhelmingly attractive, thereby halting the falling share price. When the share market risk is removed from Tweedy Browne's returns using futures contracts, this underperformance translates into negative returns. Nevertheless, its conservative approach will reap rewards during difficult market conditions and provide a valuable boost to the performance of the Portfolio.

The 'global government bond' exposure managed by Franklin Templeton remains a highlight as the strong relative and absolute performance in March continued through April.

Manager insight: Franklin Templeton

In a recent communication piece penned by Michael Hasenstab², Franklin Templeton explained its outlook for government bonds. Its outlook can best be described by the rugby cliché "a game of two halves".

In the short term Franklin Templeton expects the current favourable environment to continue. It expects short-term rates to continue falling in a number of countries (New Zealand being one of these) and has therefore positioned its portfolio to take advantage of these declines.

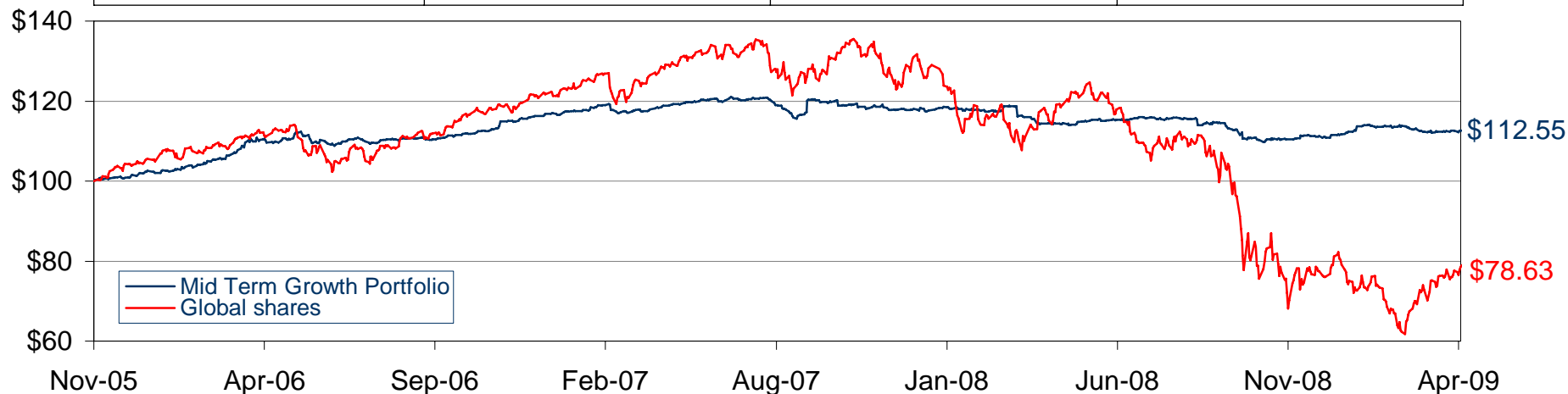
However, Franklin Templeton expects inflation to assert itself in time. Inflation is one of the most significant risks for government bond investors as an increase in inflation puts upward pressure on interest rates. Increasing interest rates tend to translate into negative returns for a benchmark-centric manager. By contrast, Franklin Templeton sees this as an opportunity – the absolute, clean sheet of paper approach it follows allows it to shorten duration to protect capital, and even use derivatives to make money from rising interest rates. Furthermore, if inflation does rise, it also sees opportunities to make money through active currency management.

¹ Returns are stated after fund fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns. ² Titled 'Dr Michael Hasenstab: Global Bond Update' and dated April 2009.

Mid Term Growth Portfolio

Performance since last mandate change (3 November 2005) to 30 April 2009

Performance attribution	One month	Three month	Six month
Positive	Cash holdings	-	-
Neutral	T Rowe Price	-	-
Negative	Lazard; Tweedy Browne	-	-



One-month return	Three-month return	Six-month return	One-year return	Since mandate change return pa
0.13%	-1.25%	1.89%	-1.28%	3.45%

Source: Bloomberg. 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. Last mandate change was in November 2005. Global shares represented by MSCI World Index in local currency. The asset class index in the chart (MSCI World Index) is not for benchmarking purposes but rather to demonstrate the performance of the largest asset class allocation in the Portfolio.

Mid Term Growth Portfolio

Portfolio summary as at 30 April 2009

Portfolio summary

Income strategies (before equity hedge)	78%
Growth strategies (before equity hedge)	22%
Yield/Interest	3%

Sector / Security	Manager	Portfolio value	Proportion of portfolio	Yield / Interest rate
Income strategies			100%	
Cash - Bank deposits	NZ Funds	\$16,921,420	34%	2.5%
Cash - Bank bills	NZ Funds	\$14,254,728	29%	2.9%
Loans	Fidelity	\$986,640	2%	7.6%
NZ government bonds	NZ Funds	\$4,200,796	9%	4.9%
Global government bonds	Franklin Templeton	\$1,983,609	4%	6.7%
Equity hedge *	NZ Funds	\$10,922,985	22%	2.5%
Growth strategies			0%	
Australasian shares - High dividend yield	NZ Funds	\$778,497	2%	9.1%
Global shares - Core	Lazard	\$3,560,156	7%	3.9%
Global shares - Growth	T Rowe Price	\$4,238,578	9%	2.0%
Global shares - High dividend yield	Tweedy Browne	\$2,429,670	5%	5.2%
Equity hedge **	NZ Funds	-\$10,922,985	-22%	2.5%
Total		\$49,354,094	100%	4%
Currency				
Foreign currency exposure	NZ Funds	Fully hedged	0%	

*The effect of the equity hedge is to remove the impact of changes in global shares from the Portfolio. Actual performance will depend on whether the respective manager under or outperforms the global equity benchmark. In addition to this manager outperformance, the Portfolio receives a cash return on the hedged assets.**The equity hedge applies to 100% of global shares, however, at times it may also apply to a portion of the Australasian shares due to the size of the hedge contracts being purchased. 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.

DISCLAIMER: This document has 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 this document except as required by law.