

## Manager insight – 31 January 2009

The Mid Term Growth Portfolio returned 2.22%<sup>1</sup> for the month of January – a good performance, especially given the difficult market environment.

The performance of the hedged global share component of the Portfolio was a highlight over the month of January. The Portfolio continues to fully remove the share market risk from these managers. This strategy has again been a positive contributor to performance, given the ongoing weakness in global share markets.

The strong performance of the hedged global shares component was driven by T Rowe Price convincingly outperforming the market. Rob Gensler, the portfolio manager, recently repositioned the portfolio to be better able to cope with the current tough investment environment. T Rowe Price believes that growth will be difficult to achieve and will generally come from well-capitalised incumbents, often operating in traditional industries. In essence, in times like these the strong get stronger at the expense of the weak. While it has a bias towards well-capitalised quality companies with a dominant franchise, it has retained some emerging market exposure in the portfolio in the belief that this may deliver a portion of the return offered by any improvement in market sentiment.

The manager has replaced AllianceBernstein with Tweedy Browne, which was also ahead of the benchmark in January. This change is reviewed in more detail in the next section ‘Manager insight: Tweedy Browne’.

### Manager insight: Tweedy Browne

With the global economic outlook for 2009 continuing to look bleak, the decision was taken to appoint Tweedy Browne – a long-established, US-based, value manager that focuses on high-dividend-yielding shares. It aims to pick around 35 of the world’s best quality high-yielding shares and will increase the cash in the portfolio when the outlook for shares is difficult. It has often been observed, in difficult markets, that shares which can continue to generate cash earnings that convert into sustainable dividends find favour with investors (as they are seen as a safe haven). The table below illustrates this point by providing the returns of Tweedy Browne’s Worldwide High Dividend Yield Value Fund during the six worst years for share markets since 1980.

#### Tweedy Browne’s performance during worst six years since 1980

Year	Benchmark	Worldwide High Dividend Yield Value Fund	Outperformance
2008	-40.7%	-29.4%	11.4%
2002	-22.1%	-2.5%	19.6%
2001	-11.9%	12.0%	23.9%
2000	-9.1%	27.3%	36.4%
1981	-4.9%	13.5%	18.4%
1990	-3.1%	0.8%	3.9%

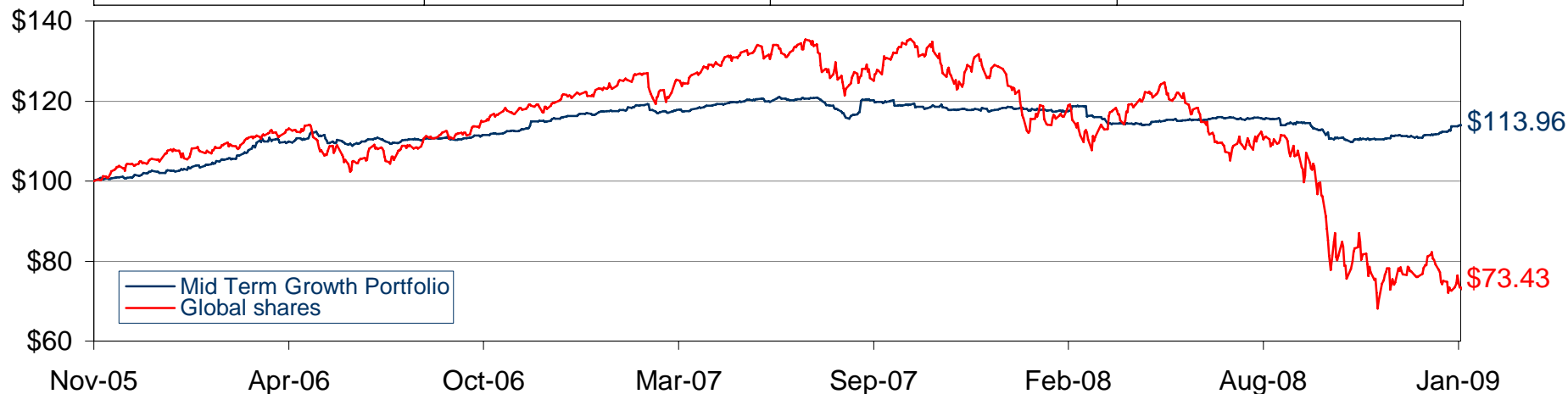
Source: Bloomberg, Tweedy Browne.

<sup>1</sup> 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.

# Mid Term Growth Portfolio

Performance since last mandate change (3 November 2005) to 31 January 2009

Performance attribution	One month	Three month	Six month
Positive	Global equity managers	-	-
Neutral	n/a	-	-
Negative	n/a	-	-



One-month return	Three-month return	Six-month return	One-year return	Since mandate change return pa
2.22%	3.18%	-1.45%	-3.22%	4.11%

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 22 January 2009

## Portfolio summary

Income strategies	79%
Growth strategies	13%
Derivatives	7%
Yield/Interest	5%

Sector / Security	Manager	Portfolio value	Proportion of portfolio	Yield / Interest rate
<b>Income strategies</b>			<b>79%</b>	
Cash - Bank deposits	NZ Funds	\$4,942,325	10%	5.0%
Cash - Bank bills	NZ Funds	\$21,088,352	43%	4.1%
Fidelity	NZ Funds	\$985,004	2%	7.6%
NZ government bonds	NZ Funds	\$4,884,788	10%	4.0%
US Treasury Inflation Protected Securities	NZ Funds	\$6,684,447	14%	6.0%
<b>Growth strategies</b>			<b>13%</b>	
Australasian shares - Cyclical	NZ Funds	\$329,452	1%	9.4%
Australasian shares - Non-cyclical	NZ Funds	\$1,098,173	2%	9.4%
Global shares - Growth	T Rowe Price	\$3,744,127	8%	2.4%
Global shares - High dividend yield	Tweedy Browne	\$1,365,368	3%	5.7%
<b>Derivatives</b>			<b>7%</b>	
Futures	NZ Funds	\$3,637,946	7%	n/a
<b>Total</b>		<b>\$48,759,982</b>	<b>100%</b>	

## Currency

Foreign currency exposure	NZ Funds	Fully hedged	0%
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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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