

MANAGER INSIGHT – 28 FEBRUARY 2010

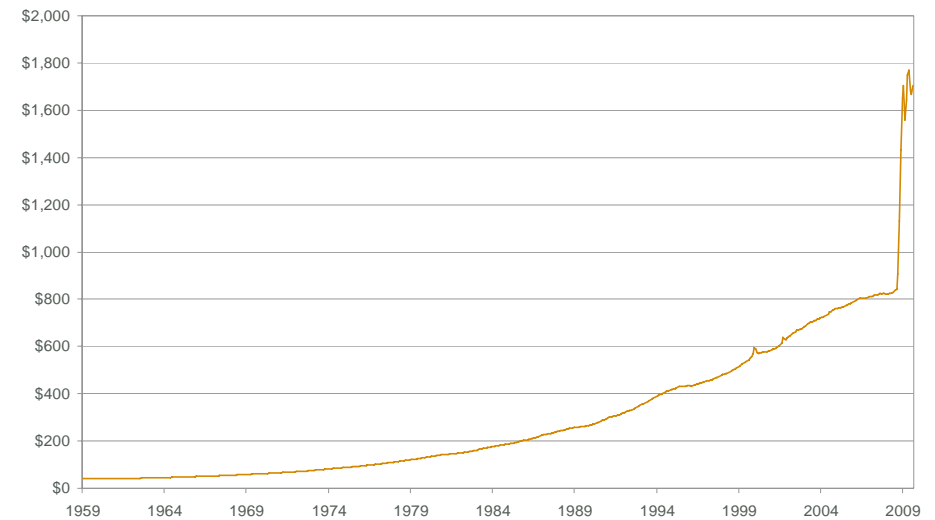
This month's 'Manager insight' discusses the risk of inflation. The banking crisis would have turned into a credit crisis without the intervention of central banks. The Federal Reserve and the Bank of England led the charge by dropping interest rates to almost zero and expanding the monetary base, in effect, printing money (economists call this 'quantitative easing'). The accompanying chart illustrates the magnitude of this expansion in the United States.

At the moment, economic activity is subdued. Most economies are beginning to recover from the credit crisis but this recovery is relatively immature. Financial institutions are attempting to rebuild their balance sheets rather than lending some of their recently replenished reserves. And thus, while the monetary base displayed in the chart above has skyrocketed, the money supply has not. As a result, the massive increase in the monetary base is not creating inflationary pressure. In time, however, economies around the world will recover, confidence will rebound and financial institutions will lend some of their recently rebuilt reserves. When this occurs, the explosion in the monetary base will feed through to the money supply and the danger is that this will create excessive inflation.

Central banks could, of course, react to the changing environment and reduce the monetary base, but this seems unlikely. History suggests that they will act too late or not at all. After all, it was central bankers' low interest rate policies that enabled households to accumulate so much debt in the first place. According to some commentators, this risk is heightened by indications that they intend waiting for clear signs of a recovery before acting. Furthermore, there has not been a clearly articulated strategy on how the monetary base will be reduced. Instead, they have suggested several options.

The risk of high, headline-grabbing inflation is real. The modest rate of inflation witnessed over the past couple of decades will, at some point in our lifetime, come abruptly to an end. This, of course, is not necessarily bad news for clients of the Portfolio. The Portfolio has investments in a range of assets that are designed to do well in periods of high inflation. A good example of this is inflation-linked bonds. If inflation gets to 1970s level, these bonds are likely to generate returns of approximately 15% per annum using our investment strategy.

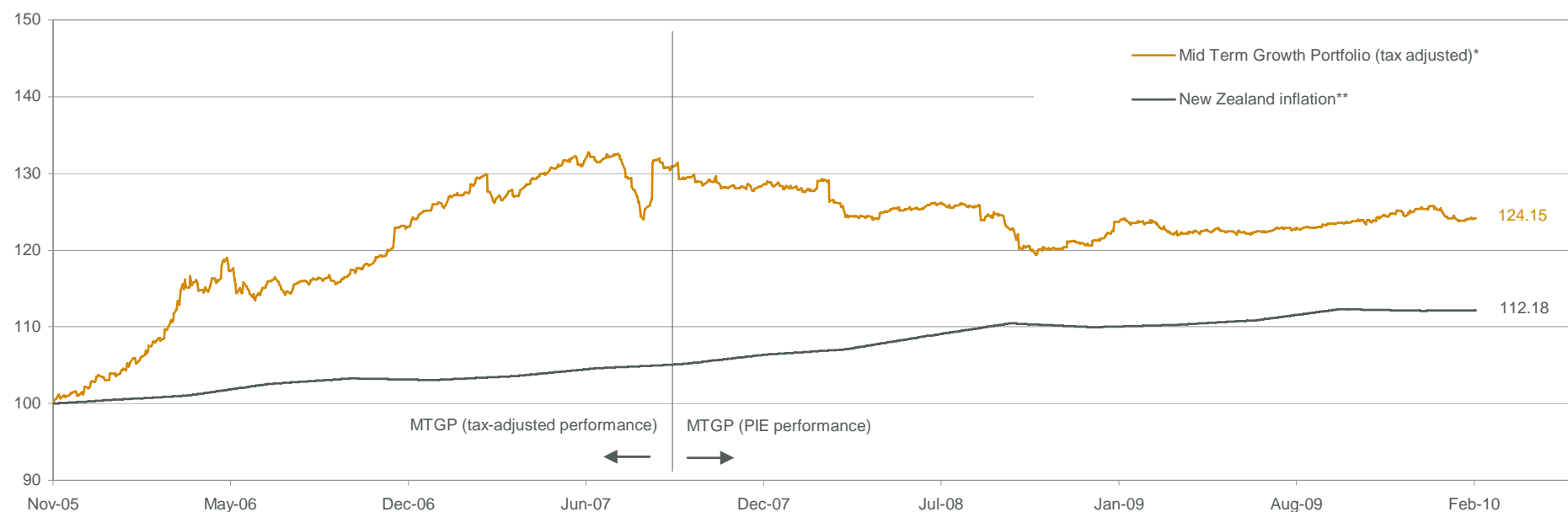
US monetary base (in US\$ billions)



Source: Bloomberg.

TAX-ADJUSTED PERFORMANCE SINCE MANDATE CHANGE (3 NOVEMBER 2005) TO 28 FEBRUARY 2010* (PART 1)

MTGP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	Cash; bonds	Bonds; global shares	Bonds; global shares
Neutral	Global shares; property	Cash	Cash; equity manager alpha
Negative	Equity manager alpha	Property; equity manager alpha	Property



COMPARISON	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	5 YEAR PA	7 YEAR PA	SINCE MANDATE CHANGE ¹	MAXIMUM DRAWDOWN*
Portfolio*	-0.01%	-0.45%	1.07%	0.48%	-1.91%	-	-	24.15%	-10.03%
New Zealand inflation**	0.03%	0.00%	0.30%	1.84%	2.47%	-	-	12.18%	-0.46%

¹ Pre-tax equivalent gross return. IMPORTANT: Please refer to the slide that follows for the footnotes relating to this slide.

TAX-ADJUSTED PERFORMANCE SINCE MANDATE CHANGE (3 NOVEMBER 2005) TO 28 FEBRUARY 2010* (PART 2)

Tax-adjusted Performance

- * Tax-adjusted performance for the Mid Term Growth Portfolio (MTGP) is stated after portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns. The Portfolio's mandate was changed on 3 November 2005, providing clients with a portfolio that allows them to protect their purchasing power from the effects of inflation.

MTGP was established as a New Zealand Unit Trust. In calculating the tax-adjusted performance for MTGP the return prior to 30 September 2007 has been 'grossed up' at 33% (being the tax rate applicable to a New Zealand Unit Trust) to reflect that previously tax was paid within the trust. The tax-adjusted performance is designed to remove, as much as possible, the impact of the tax paid by the Portfolio during the calculation period. By doing so it enables the returns from MTGP to be represented in a substantially consistent manner throughout the measurement period.

The tax-adjusted performance covers two different tax regimes, and accordingly two different calculation methods are applied. The two calculation periods are:

- i) The period pre 30 September 2007 (being the period prior to the introduction of the PIE regime);
- ii) The period post 1 October 2007 (being the date from which MTGP was subject to the PIE regime).

This calculation is undertaken for comparative purposes only, and should not be confused with the return generated from the Mid Term Growth Portfolio.

More details on these calculations, together with the formulae used, are available on request from New Zealand Funds Management.

Comparative Index

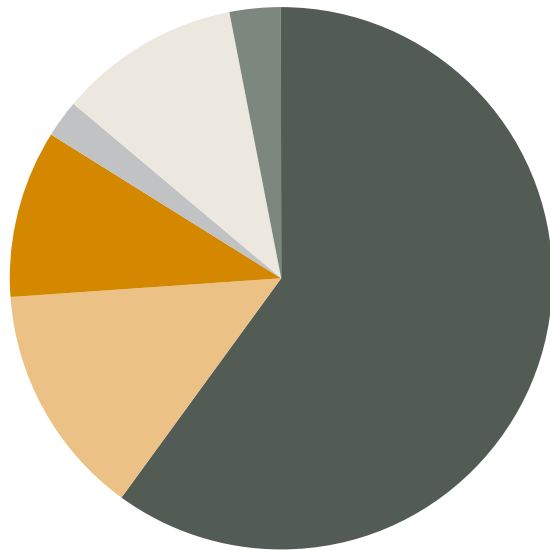
- ** The comparative index is New Zealand's inflation rate as measured by the Consumers Price Index. Source: Bloomberg.

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.

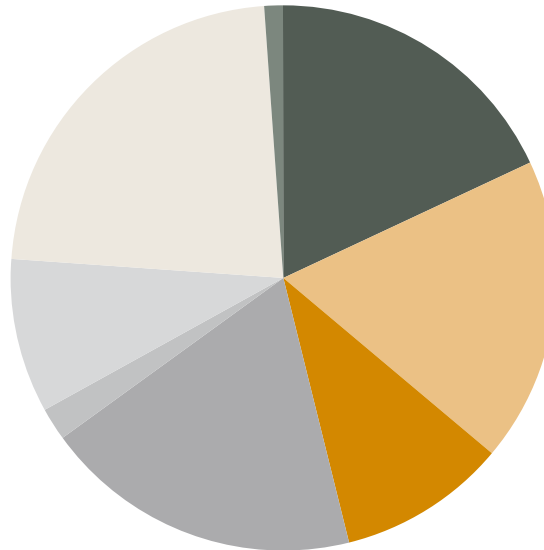
ASSET ALLOCATION (%)

January 2009



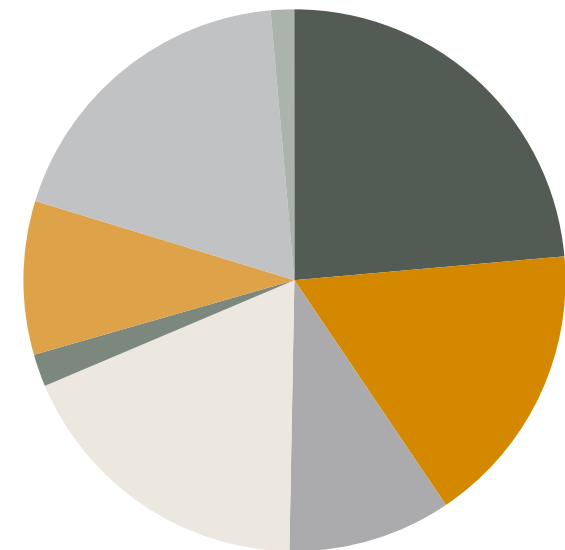
● CASH	60
● INFLATION-LINKED GOVERNMENT BONDS	14
● GOVERNMENT BONDS	10
● LOANS	2
● GLOBAL SHARES (HEDGED)	11
● AUSTRALASIAN SHARES (HEDGED)	3
TOTAL	100

January 2010



● CASH	18
● INFLATION-LINKED GOVERNMENT BONDS	18
● GOVERNMENT BONDS	10
● CORPORATE BONDS	19
● LOANS	2
● GLOBAL PROPERTY	9
● GLOBAL SHARES (HEDGED)	23
● AUSTRALASIAN SHARES (HEDGED)	1
TOTAL	100

February 2010



● CASH	24
● INFLATION-LINKED GOVERNMENT BONDS	17
● GOVERNMENT BONDS	10
● CORPORATE BONDS	19
● LOANS	2
● GLOBAL PROPERTY	9
● GLOBAL SHARES (PARTIALLY HEDGED)	19
● AUSTRALASIAN SHARES (UNHEDGED)	1
TOTAL	100

COMPLETE PORTFOLIO AS AT 28 FEBRUARY 2010

PORTFOLIO SUMMARY

Yield ¹	5.4%
Income strategies (before share hedge) ²	70%
Growth strategies (before share hedge) ²	30%
Currency strategies	0%
Total economic exposure	100%

STRATEGY / SECURITY	MANAGER	ASSET CLASS	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	YIELD
INCOME STRATEGIES				82.0%	
Bank deposits / Bank bills	NZ Funds	Cash	\$15,415,146	23.6%	2.7%
Investment-grade corporate bonds	PIMCO	Corporate bonds	\$6,524,717	10.0%	7.8%
Investment-grade corporate bonds	iShares	Corporate bonds	\$5,608,132	8.6%	7.3%
United States inflation-linked government bonds	NZ Funds	Government bonds	\$5,144,399	7.9%	5.6%
New Zealand inflation-linked government bonds	NZ Funds	Government bonds	\$3,076,673	4.7%	5.0%
German inflation-linked government bonds	NZ Funds	Government bonds	\$2,829,047	4.3%	5.2%
Global government bonds	Franklin Templeton	Government bonds	\$3,295,193	5.0%	6.3%
German government bonds	NZ Funds	Government bonds	\$1,072,793	1.6%	5.3%
United States government bonds	NZ Funds	Government bonds	\$1,052,515	1.6%	6.2%
United Kingdom government bonds	NZ Funds	Government bonds	\$980,490	1.5%	6.2%
Loans (via Private Loan Trust)	Fidelity	New Zealand direct loans	\$1,139,112	1.7%	7.8%
Share hedge ²	NZ Funds	Cash	\$7,533,935	11.5%	2.7%
GROWTH STRATEGIES				18.0%	
Global property	Challenger/Resolution/NZ Funds	Global property	\$6,037,546	9.2%	5.3%
Global shares - Core	Lazard	Global shares	\$4,163,157	6.4%	5.5%
Global shares - Growth	T Rowe Price	Global shares	\$3,902,480	6.0%	5.2%
Global shares - Utilities	NZ Funds	Global shares	\$3,015,799	4.6%	7.2%
Global shares - High dividend yield	Tweedy Browne	Global shares	\$1,299,657	2.0%	6.9%
Australasian shares - High dividend yield	NZ Funds	Australasian shares	\$892,437	1.4%	7.3%
Commodities	Standard & Poor's	Commodities	\$0	0.0%	n/a
Share hedge ²	NZ Funds	Global shares	-\$7,533,935	-11.5%	2.7%
CURRENCY STRATEGIES					
Foreign currency exposure	NZ Funds	Fully hedged	\$0	0.0%	n/a
TOTAL ECONOMIC EXPOSURE³			\$65,449,293	100.0%	5.4%

¹ The yield calculation represents an estimate of the yield on the Portfolio, calculated using the most recent information provided by the investment managers involved in managing the Portfolio, hedged back to New Zealand dollars where appropriate. It is not calculated 'as at' any particular date as different investment managers provide data at varying dates. As a result, in some instances the yields may lag the date of this portfolio summary. The yield is not the return on the Portfolio, nor is it a projection or forecast. The Portfolio's return could be less than the Portfolio's yield. Details of the yield calculation are available on request from New Zealand Funds Management. ² The effect of the share hedge is to reduce the allocation to shares and increase the allocation to cash. ³ 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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