

MANAGER INSIGHT – 31 MARCH 2010

In order to achieve its primary objective of inflation protection, the global shares component of the Portfolio will undergo some significant changes during the next quarter. This month's 'Manager insight' discusses the changes and how these changes will enable the Portfolio to achieve its objectives.

The Portfolio will cease to have exposure to the global share offerings of T Rowe Price and Tweedy Browne, two managers used by the diversified growth portfolios. As a result, the only broad equity exposure will be that managed by Lazard. Lazard uses a highly systemised quantitative process that is designed to create a portfolio that balances growth and value investment styles. This balanced approach, combined with a benchmark-centric portfolio construction approach, has allowed Lazard to generate performance that has exceeded share market benchmarks by an attractive margin in a relatively consistent fashion. When combined with the hedging strategy, this approach has resulted in a stream of returns that exceeded cash by an attractive margin.

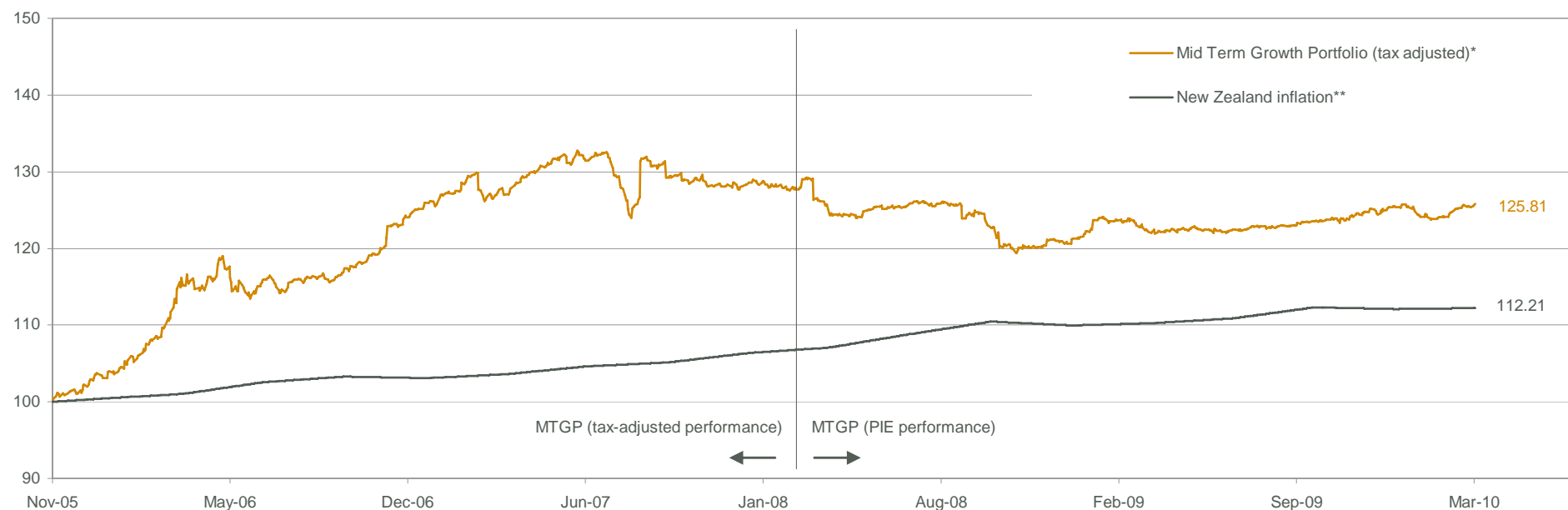
The cash held from the divestment of T Rowe Price and Tweedy Browne will be used to fund four global share sector strategies. The global share sector strategies are designed to give the Portfolio access to equities that perform well during inflation while managing risk levels to suit the needs category. It should be noted that these changes will modestly increase the variability of returns. This is an important prerequisite for protecting clients against inflation and for the Portfolio to prosper in any episodes of high inflation.

The global share sectors, which will be accessed using index tracking Exchange Traded Funds, have been handpicked and stress tested for their behaviour during bouts of high inflation. These are Healthcare, Consumer Staples, Energy and Materials. Each sector strategy has its own bespoke hedging strategy that signals when that particular share sector is trending down and the exposure should be sold until such time as the downward trend reverses. This is possible due to the liquid nature of Exchange Traded Funds, which allows quick and efficient access to and egress from the sectors. These sectors are attractive to this Portfolio as they have characteristics embedded in their industry structures that allow them to keep their profits healthy during periods of rising prices. Not all companies are so fortunate and can struggle badly at such times so it is crucial that the distinction between the winners and losers is recognised by a global share portfolio seeking to stay ahead of inflation.

By initiating these sector strategies, the Portfolio is better positioned to protect clients from the threat of inflation. These strategies, combined with investments in inflation-linked government bonds, utilities and property, should allow the Portfolio to perform strongly in the next period of high inflation.

TAX-ADJUSTED PERFORMANCE SINCE MANDATE CHANGE (3 NOVEMBER 2005) TO 31 MARCH 2010* (PART 1)

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



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*	1.34%	0.36%	1.84%	2.93%	0.59%	-	-	25.81%	-10.03%
New Zealand inflation**	0.03%	0.10%	-0.08%	1.78%	2.37%	-	-	12.21%	-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 31 MARCH 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

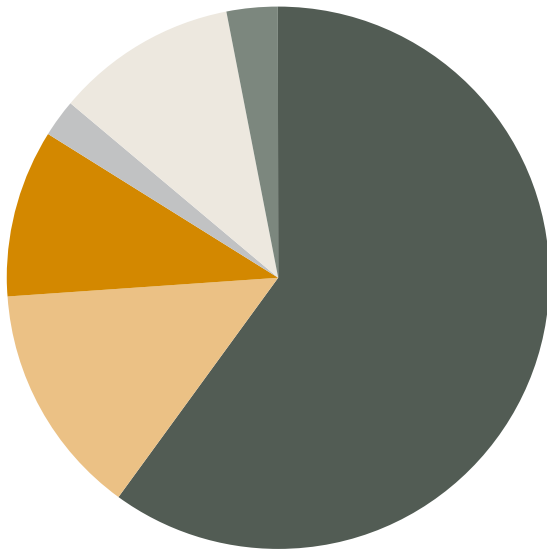
- ** The comparative index is New Zealand's inflation rate as measured by the Consumers Price Index. Source: Bloomberg.

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.

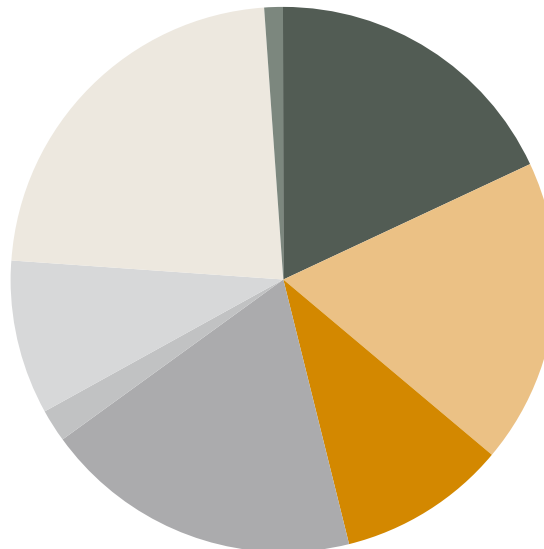
ASSET ALLOCATION (%)

January 2009



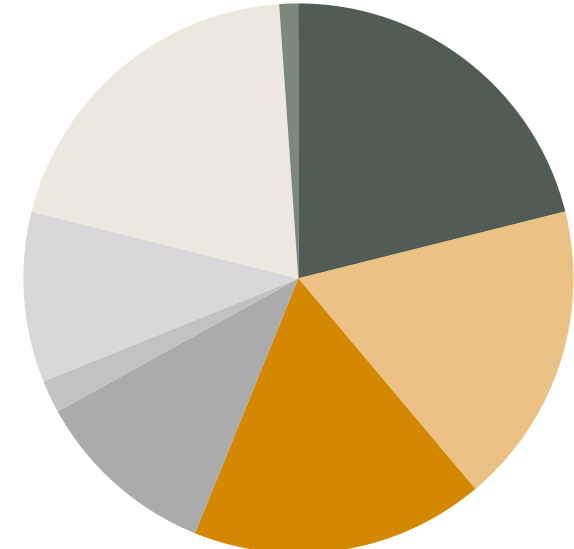
● CASH	60
● INFLATION-LINKED GOVERNMENT BONDS	14
● GOVERNMENT BONDS	10
● LOANS	2
● GLOBAL SHARES (HEDGED)	11
● AUSTRALASIAN SHARES (HEDGED)	3
TOTAL	100

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

March 2010



● CASH	21
● INFLATION-LINKED GOVERNMENT BONDS	18
● GOVERNMENT BONDS	17
● CORPORATE BONDS	11
● LOANS	2
● GLOBAL PROPERTY	10
● GLOBAL SHARES (PARTIALLY HEDGED)	20
● AUSTRALASIAN SHARES (UNHEDGED)	1
TOTAL	100

COMPLETE PORTFOLIO AS AT 31 MARCH 2010

PORTFOLIO SUMMARY

Yield ¹	5.3%
Income strategies (before share hedge)	69%
Growth strategies (before share hedge)	31%
Currency strategies	0%
Total economic exposure	100%

STRATEGY / SECURITY	MANAGER	ASSET CLASS	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	YIELD
INCOME STRATEGIES				80.8%	
Bank deposits / Bank bills	NZ Funds	Cash	\$14,412,137	21.9%	2.6%
Investment-grade corporate bonds	PIMCO	Corporate bonds	\$6,399,184	9.7%	7.2%
Investment-grade corporate bonds	iShares	Corporate bonds	\$5,655,984	8.6%	7.3%
United States inflation-linked government bonds	NZ Funds	Government bonds	\$5,188,295	7.9%	5.8%
New Zealand inflation-linked government bonds	NZ Funds	Government bonds	\$3,102,925	4.7%	5.2%
German inflation-linked government bonds	NZ Funds	Government bonds	\$2,853,187	4.3%	5.2%
Global government bonds	Franklin Templeton	Government bonds	\$3,462,509	5.3%	6.3%
German government bonds	NZ Funds	Government bonds	\$1,178,934	1.8%	5.4%
United States government bonds	NZ Funds	Government bonds	\$1,156,650	1.8%	6.4%
United Kingdom government bonds	NZ Funds	Government bonds	\$1,077,498	1.6%	6.3%
Loans (via Private Loan Trust)	Fidelity	New Zealand direct loans	\$1,149,225	1.7%	7.8%
Share hedge cash ²	NZ Funds	Cash	\$7,533,935	11.4%	2.6%
GROWTH STRATEGIES				19.2%	
Global property	Challenger/Resolution/NZ Funds	Global property	\$6,258,023	9.5%	4.5%
Global shares - Core	Lazard	Global shares	\$4,339,908	6.6%	5.4%
Global shares - Growth	T Rowe Price	Global shares	\$4,215,354	6.4%	5.2%
Global shares - Utilities	NZ Funds	Global shares	\$3,113,430	4.7%	7.0%
Global shares - High dividend yield	Tweedy Browne	Global shares	\$1,341,833	2.0%	6.8%
Australasian shares - High dividend yield	NZ Funds	Australasian shares	\$917,277	1.4%	6.8%
Commodities	Standard & Poor's	Commodities	\$0	0.0%	n/a
Share hedge ²	NZ Funds	Global shares	-\$7,533,935	-11.4%	2.6%
CURRENCY STRATEGIES				0.0%	
Foreign currency exposure	NZ Funds	Fully hedged	\$0	0.0%	n/a
TOTAL ECONOMIC EXPOSURE³			\$65,822,354	100.0%	5.3%

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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