

Portfolio overview – 30 November 2009

Needs category objective

- To provide clients with an allocation of funds to protect their purchasing power from the effects of inflation.

Investment objective

- To primarily invest in a diversified range of income-producing and growth assets (including listed property securities), utilising active investment management.

New Investment Statement

- On 30 October 2009 a new Investment Statement covering the Portfolio came into effect. This new Investment Statement altered the needs category objective and investment objective of the Portfolio. These changes were implemented from 19 November 2009, after the expiration of the notice period prescribed in the Trust Deed.

Risk management

- Utilises NZ Funds' international and New Zealand property strategies to actively manage the share market risk that listed property securities are exposed to. These strategies signal periods when share market risk is dominating the returns of listed property and more defensive positioning should be taken.

Return enhancement

- Resolution Capital is a boutique specialist listed property investment manager that has built an extraordinary track record over the past few years. Its mix of in-depth fundamental research and thematic investing produces a portfolio of listed property trusts that has unique property assets, in strong markets, with good management teams.
- Challenger/Heitman is a joint venture between two property-focused groups. Its well-resourced teams have a systematic approach to building a portfolio which has a consistent track record of beating the benchmark. Challenger selects the Australian and Asian listed property trusts while Heitman selects those from the United States and Europe.

Manager insight

The Portfolio's objective is to protect against inflation, which is currently running at a subdued 2.15%¹ for the first nine months of 2009. This is equivalent to 0.24% a month or 2.63% year to date.

Listed property trust insight: Kiwi Income Property Trust

The Global Property Portfolio has 2.2% of its assets invested in Kiwi Income Property Trust (KIP) which released its 2010 interim result. This result clearly showed the strength of its diversified asset base – KIP's retail portfolio was the main driver behind the 24% increase in operating profit. With 60% of its assets in retail property, KIP is a great way for the Portfolio to access the benefits of this sector.

Premium retail assets are the defensive type of property to own when a downturn in the market comes along. Spending habits change but not necessarily lifestyle ones. Saturdays still involve the trip to the mall but with a few dollars less in the purse. Retailer profit margins quickly and sharply compress when this happens, despite mall foot traffic remaining relatively stable. The foot traffic stability does, however, mean stable profits for the retail landlord. The mall seen as the Saturday destination is an extremely valuable asset and KIP has one of the country's best examples of that in Sylvia Park. With annual retail sales in excess of \$350 million it is the busiest mall in New Zealand. The creation of such an asset is not just a 'build it and they will come' phenomena. Management has to secure the right mix of retailers, and this must be kept fresh and relevant. They have to ensure that it has all the amenities, plentiful

parking, easy access and an attached cinema complex. The team at KIP have achieved this at Sylvia Park with great success.

KIP also appears to be making good progress in repeating the formula with the Plaza Shopping Centre in Palmerston North. A large (\$93 million) and challenging project, the Plaza looked ambitious as the economy slumped. In May of this year, with completion less than a year away and 30% of the centre still to be leased, investor nervousness was high. The interim result offers comfort as the centre is now 86% leased and there is another six months before completion of the final stage of the development.

A crucial aspect of property for this Portfolio is that it is a natural hedge against the damage that inflation can cause. Indeed many of the specialty retail contracts that KIP has in place have CPI related rent reviews. Given the emphasis this Portfolio has on delivering returns in excess of inflation it is reassuring to see this characteristic embedded.

Looking ahead, NZ Funds will be particularly interested in the progress KIP makes in the marketing of the PricewaterhouseCoopers Centre in Christchurch. This building is valued at \$55.4 million, with very few buildings having been sold in New Zealand over the past two years in this price bracket. A successful sale of this asset will not only allow KIP to further reduce their gearing to less than 30%, but would also provide hard transactional evidence that the New Zealand property market is continuing on its path to recovery.

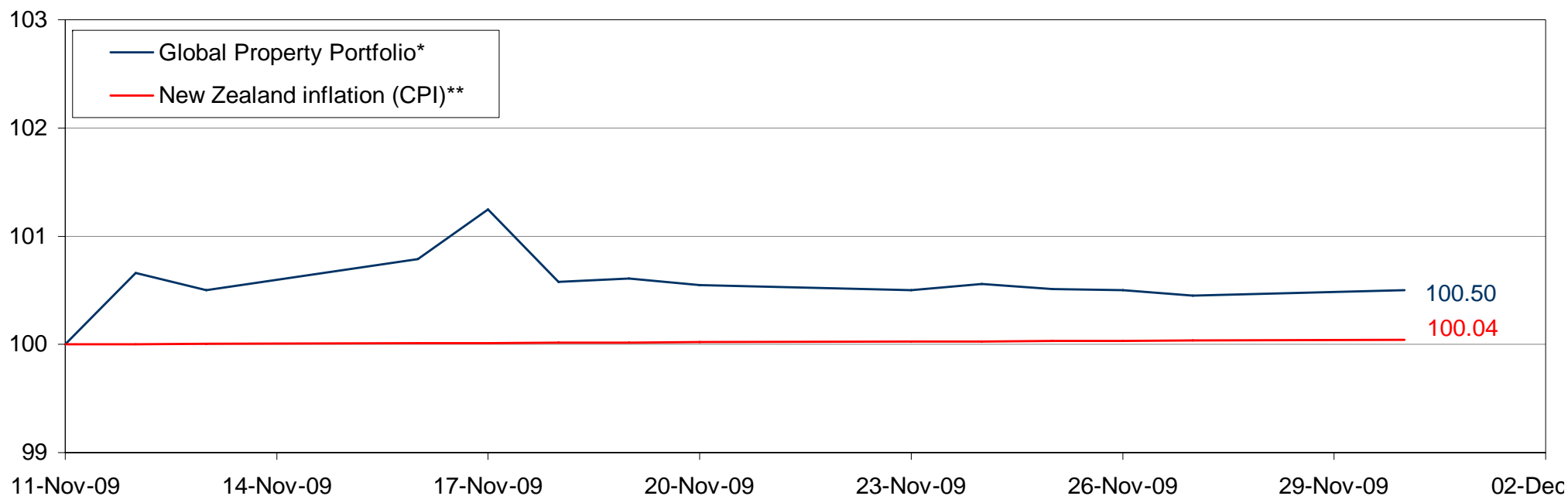
¹ Source: Bloomberg.

Global Property Portfolio



Performance since inception (11 November 2009) to 30 November 2009 (Part 1)

GPP performance attribution	1 month	3 month	6 month
Positive	-	-	-
Neutral	-	-	-
Negative	-	-	-



Comparison	1 month	3 month	6 month	1 year	2 year pa	5 year pa	7 year pa	Since inception	Maximum drawdown*
Portfolio*	-	-	-	-	-	-	-	0.50%	-0.79%
New Zealand inflation**	-	-	-	-	-	-	-	0.04%	0.00%

IMPORTANT: Please refer to the slide that follows for the footnotes relating to this slide.

Performance since inception (11 November 2009) to 30 November 2009 (Part 2)

Global Property 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 New Zealand's inflation rate as measured by the Consumers Price Index. Source: Bloomberg.

Maximum drawdown

- × Returns should be looked at in conjunction with the level of risk associated with an investment. For this reason, we have included the 'maximum drawdown' for both the Portfolio and the comparison. Maximum drawdown is a measure of volatility and represents the largest cumulative decline experienced during the reporting period.

Global Property Portfolio

Indicative portfolio as at 30 November 2009

Portfolio summary					
Yield ¹		4.7%			
Cash		49%			
Gross international listed property		42%			
International listed property hedge ²		0%			
Net international listed property		42%			
New Zealand listed property		9%			

Strategy / Security	Manager	Asset class	Portfolio value	Proportion of portfolio	Yield ¹
Cash				49.2%	
Cash	NZ Funds	Cash	\$70,214	49.2%	2.8%
International property strategy				42.0%	
Resolution Capital - Top 10 securities			\$51,891	36.4%	7.0%
British Land Co	Resolution Capital	Global listed property	n/a	n/a	5.7%
CFS Retail Property Trust	Resolution Capital	Global listed property	n/a	n/a	6.8%
Hongkong Land Holdings	Resolution Capital	Global listed property	n/a	n/a	2.9%
Land Securities Group	Resolution Capital	Global listed property	n/a	n/a	4.1%
Link REIT	Resolution Capital	Global listed property	n/a	n/a	5.0%
Simon Property Group	Resolution Capital	Global listed property	n/a	n/a	2.7%
SL Green Realty	Resolution Capital	Global listed property	n/a	n/a	1.8%
Unibail-Rodamco	Resolution Capital	Global listed property	n/a	n/a	5.0%
Vornado Realty Trust	Resolution Capital	Global listed property	n/a	n/a	3.5%
Westfield	Resolution Capital	Global listed property	n/a	n/a	8.1%
Challenger Heitman - Top 10 securities			\$7,957	5.6%	7.4%
AvalonBay Communities	Challenger Heitman	Global listed property	n/a	n/a	4.7%
British Land Co	Challenger Heitman	Global listed property	n/a	n/a	5.7%
Digital Realty Trust	Challenger Heitman	Global listed property	n/a	n/a	3.0%
Federal Realty Investment Trust	Challenger Heitman	Global listed property	n/a	n/a	4.0%
Health Care REIT	Challenger Heitman	Global listed property	n/a	n/a	6.0%
Public Storage	Challenger Heitman	Global listed property	n/a	n/a	2.8%
RioCan Real Estate Investment Trust	Challenger Heitman	Global listed property	n/a	n/a	7.4%
Simon Property Group	Challenger Heitman	Global listed property	n/a	n/a	2.7%
Unibail-Rodamco	Challenger Heitman	Global listed property	n/a	n/a	5.0%
Westfield	Challenger Heitman	Global listed property	n/a	n/a	8.1%
International listed property hedge	Proshares UltraShort ²	Global listed property index	\$0	0.0%	n/a
New Zealand property strategy				8.8%	
NZ Funds - Complete portfolio			\$12,548	8.8%	8.5%
Goodman Property Trust	NZ Funds	New Zealand listed property	\$3,251	2.3%	9.3%
Property For Industry	NZ Funds	New Zealand listed property	\$3,194	2.2%	7.6%
Kiwi Income Property Trust	NZ Funds	New Zealand listed property	\$3,109	2.2%	8.7%
AMP Office Trust	NZ Funds	New Zealand listed property	\$2,995	2.1%	8.3%
Total economic exposure			\$142,596	100.0%	

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. Rather, it is an estimate of the pre-tax and fees income stream generated from investing in the Portfolio. The Portfolio return consists of yield and capital gains and losses (also calculated on a pre-tax and fees basis). Therefore, the Portfolio's return could be less than the Portfolio's yield. Details of the yield calculation are available on request from NZ Funds. In the case of data provided by Challenger, this data is provided as at 30 September 2009. Thus it pre-dates the establishment date of the Portfolio and should therefore be regarded as only indicative of the make up of the securities held by this manager as at 30 November 2009. ² Proshares aims to provide 2x the inverse return of the international property market. 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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