

MANAGER INSIGHT – 31 JANUARY 2010

In 2009, international property and New Zealand property strategies were developed and tested which resulted in the Portfolio being launched in November 2009. The Portfolio got off to a strong start, however, it should not be ignored that a portfolio that can make strong short-term gains can also experience short-term losses. Indeed, the Portfolio was down 2.80%¹ in January – this is the essence of the mantra of “no risk, no return.” But it cannot be understated how much work has gone into designing property strategies that address the issue of managing risk in the Portfolio.

The primary risk management approach is diversity. The Portfolio will never have all its eggs in one property basket. For this portfolio, diversity comes in numerous forms – it invests across geographies with listed property trusts spread around the globe (across cities, regions and countries). These listed property trusts are in turn diversified across many types of property (office towers, shopping malls, and commercial and industrial buildings).

The Portfolio employs Resolution and Challenger/Heitman – again more than one egg in the manager basket, to select the international listed property trusts. They are seeking to add another level of risk management by selecting the best-quality listed property trusts. Resolution describes this as its search for listed property trusts with unique portfolios of quality properties, run by quality management teams in fundamentally strong markets. Having these quality listed property trusts in the Portfolio further reduces risk.

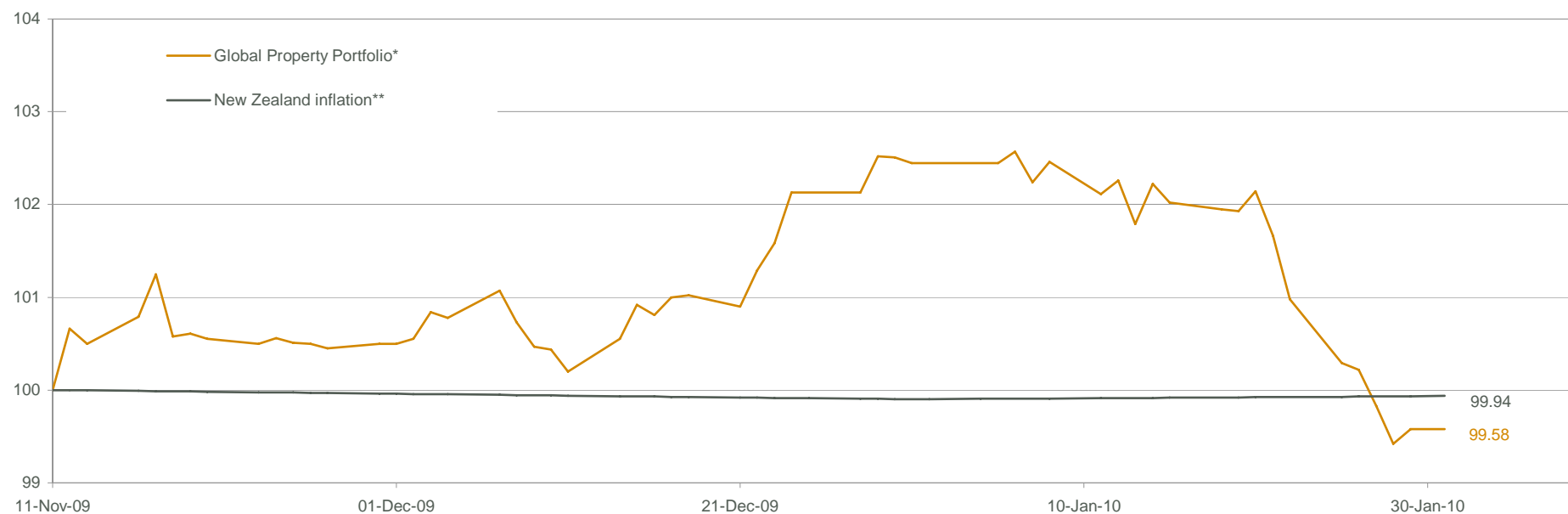
Another facet of risk management in the Portfolio is liquidity. All the property exposures are highly liquid instruments that trade on the stock exchange and can be converted to cash quickly and efficiently, if required. The Portfolio's exposure to New Zealand property is a perfect example of the flexibility that liquidity creates. The Portfolio uses proprietary models to signal when New Zealand property momentum is negative, that the operating environment is deteriorating, and that action should be taken to reduce risk. Because the investments are New Zealand listed property trusts, the positions can be readily turned into cash until such a time as the signals reverse.

But that is not where the risk management in this Portfolio stops. Models have been developed for signalling when episodes of market volatility are dominating international listed property. When this occurs, an exchange-traded fund that eliminates market risk is purchased. The rest of the time, the cash dampens down day-to-day volatility. All together, this creates a portfolio with level upon level of risk management.

¹ 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.

PERFORMANCE SINCE INCEPTION (11 NOVEMBER 2009) TO 31 JANUARY 2010 (PART 1)

GPP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	ProShares	-	-
Neutral	Cash	-	-
Negative	Resolution; New Zealand property	-	-



COMPARISON	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	5 YEAR PA	7 YEAR PA	SINCE INCEPTION ¹	MAXIMUM DRAWDOWN ^x
Portfolio*	-2.80%	-	-	-	-	-	-	-0.42%	-3.07%
New Zealand inflation**	0.03%	-	-	-	-	-	-	-0.06%	-0.10%

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

PERFORMANCE SINCE INCEPTION (11 NOVEMBER 2009) TO 31 JANUARY 2010 (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

- 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.

INDICATIVE PORTFOLIO AS AT 31 JANUARY 2010 (PART 1)⁴

PORTFOLIO SUMMARY

Yield ¹	4.7%
Cash	31%
Gross international listed property	48%
International listed property hedge ²	-24%
Net international listed property	24%
New Zealand listed property	9%
Total economic exposure	100%

STRATEGY / SECURITY	COUNTRY	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	MARKET CAP (\$B) ³	PRICE/EARNINGS	PRICE/BOOK	PAYOUT RATIO	YIELD
CASH			30.9%					
Cash		\$51,388	30.9%	n/a	n/a	n/a	n/a	2.8%
INTERNATIONAL PROPERTY STRATEGY			60.5%					
Resolution Capital - Top 10 securities		\$63,917	38.5%					7.3%
Simon Property Group	United States	n/a	n/a	\$19.8	46.1	4.6	43.8%	2.9%
Unibail-Rodamco	France	n/a	n/a	\$19.7	17.0	1.2	n/a	5.1%
Link REIT	Hong Kong	n/a	n/a	\$5.4	19.8	1.3	n/a	5.1%
Westfield	Australia	n/a	n/a	\$32.2	13.2	1.1	n/a	7.8%
CFS Retail Property Trust	Australia	n/a	n/a	\$5.3	14.6	0.9	n/a	6.9%
SL Green Realty	United States	n/a	n/a	\$3.5	60.5	0.9	14.8%	1.1%
Mitsubishi Estate	Japan	n/a	n/a	\$22.1	36.2	1.6	n/a	0.8%
Hongkong Land Holdings	Hong Kong	n/a	n/a	\$9.9	14.2	0.9	n/a	3.1%
Vornado Realty Trust	United States	n/a	n/a	\$11.4	36.7	1.9	66.5%	3.5%
Land Securities Group	Britain	n/a	n/a	\$7.7	19.6	1.0	n/a	4.3%
Challenger Heitman - Top 10 securities		\$16,411	9.9%					7.8%
Simon Property Group	United States	n/a	n/a	\$21.0	51.0	4.9	43.8%	2.7%
Unibail-Rodamco	France	n/a	n/a	\$14.4	17.3	1.2	n/a	5.0%
RioCan Real Estate Investment Trust	Canada	n/a	n/a	\$4.5	41.5	2.5	92.1%	7.4%
Westfield	Australia	n/a	n/a	\$27.0	12.8	1.1	n/a	8.1%
Federal Realty Investment Trust	United States	n/a	n/a	\$4.0	41.6	3.4	64.8%	4.0%
Digital Realty Trust	United States	n/a	n/a	\$3.7	76.2	4.2	37.7%	3.0%
AvalonBay Communities	United States	n/a	n/a	\$6.2	44.3	2.0	n/a	4.7%
British Land Co	Britain	n/a	n/a	\$3.9	17.0	1.3	n/a	5.7%
Public Storage	United States	n/a	n/a	\$13.5	28.8	2.4	55.3%	2.8%
Health Care REIT	United States	n/a	n/a	\$5.6	26.3	1.6	96.0%	6.0%
International listed property hedge		\$20,216	12.2%					n/a
NEW ZEALAND PROPERTY STRATEGY			8.6%					
NZ Funds - Complete portfolio		\$14,217	8.6%					10.8%
Goodman Property Trust	New Zealand	\$3,724	2.2%	\$0.9	11.5	1.0	93.0%	12.0%
Property For Industry	New Zealand	\$3,622	2.2%	\$0.2	15.2	1.0	100.0%	9.1%
Kiwi Income Property Trust	New Zealand	\$3,588	2.2%	\$0.8	13.0	0.7	97.0%	10.4%
AMP Office Trust	New Zealand	\$3,283	2.0%	\$0.7	11.6	0.8	97.0%	11.8%
TOTAL ECONOMIC EXPOSURE		\$166,150	100.0%					

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

INDICATIVE PORTFOLIO AS AT 31 JANUARY 2010 (PART 2)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 ProShares aims to provide 2 times the inverse return of the international property market.
- ³ Stated in United States dollars for the international property strategy and New Zealand dollars for the New Zealand property strategy.
- ⁴ This indicative portfolio is based on the most up-to-date information available. Total economic exposure is accurate as at 31 January 2010. Resolution Capital information is as at 31 December 2009. Challenger Heitman information is 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 31 January 2010.

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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