

MANAGER INSIGHT – 31 MARCH 2010

At times, the Portfolio will have a significant allocation to cash. Indeed, recently the Portfolio has had as much as 50% of its assets in cash in the bank. It should be noted that this does not indicate that the Portfolio has no better place to invest these assets. In fact, at times it is the very best place to have a large chunk of the Portfolio invested. This is because cash in the bank is the ultimate safe haven, the best way to take risk off the table and can, at times, be a key allocation when actively managing risk.

For the Portfolio, risk management is of paramount importance as it uses listed property trusts to achieve its objectives of beating cash and inflation over five years with a target of capital stability over two years. By sheer dint of being listed on the share market, these investments take on an extra layer of volatility that has nothing to do with the buildings they own but everything to do with investors and their, at times, irrational behaviour. Over the past 10 years, this has been more than adequately demonstrated by two crashes in the global share markets. The volatility is also there on a less dramatic day-by-day or month-by-month basis and the Portfolio looks to manage these moves as well as the big blowouts that can also occur from time to time.

With regards to the 50% international listed property trust exposure within the Portfolio, which is handled by specialist investment managers Resolution and Challenger/Heitman, share market risk is managed in two ways. First, to dampen down the day-to-day volatility of the share market, an allocation of 25% cash at the bank is paired with the 50% allocation to international listed property trusts. Second, from time to time the market moves become more extreme and then the 25% cash is used to buy a derivative that eliminates entirely the share market risk of listed property.

The Portfolio may also invest in New Zealand listed property trusts. Normally it has 20% of its assets spread across the premier listed property trusts of the market. However, in recent times, this exposure has been converted to cash as the capital protection strategies have signaled that this risk should be taken off the table.

Share market risk became elevated as concerns relating to possible changes to the taxation of property saw listed property trusts underperform. Further, listed property trusts have yet to see their earnings return to normal post the recent markdowns in property values.

It should be stressed, however, that in our view, this is a temporary but necessary position. This, we believe, will change as the environment improves, and when this occurs, the Portfolio can once again have 20% invested in New Zealand listed property trusts.

At a portfolio level, the two approaches in managing the risks of exposure to international listed property and New Zealand listed property can result in 50% cash, as they are currently doing. That is not to say that the Portfolio cannot continue to achieve the needs category objectives. In fact, during the month of March, the Portfolio returned 2.54%¹ to clients.

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 MARCH 2010 (PART 1)

GPP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	Resolution; Challenger Heitman	Resolution	Resolution; Challenger Heitman
Neutral	Cash	Cash; Challenger Heitman	Cash; New Zealand property
Negative	n/a	ProShares; New Zealand property	ProShares



COMPARISON	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	5 YEAR PA	7 YEAR PA	SINCE INCEPTION	MAXIMUM DRAWDOWN*
Portfolio*	2.54%	-0.19%	-	-	-	-	-	2.25%	-3.07%
New Zealand inflation**	0.03%	0.10%	-	-	-	-	-	0.00%	-0.10%

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

PERFORMANCE SINCE INCEPTION (11 NOVEMBER 2009) TO 31 MARCH 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 MARCH 2010 (PART 1)⁴

PORTFOLIO SUMMARY

Yield ¹	4.5%
Cash	51%
Gross international listed property	49%
International listed property hedge ²	0%
Net international listed property	49%
New Zealand listed property	0%
Total economic exposure	100%

STRATEGY / SECURITY	COUNTRY	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	MARKET CAP (\$B) ³	PRICE/EARNINGS	PRICE/BOOK	PAYOUT RATIO	YIELD
CASH			51.1%					
Bank deposits / Bank bills	New Zealand	\$137,530	51.1%	n/a	n/a	n/a	n/a	2.8%
INTERNATIONAL PROPERTY STRATEGY			48.9%					
Resolution Capital - Top 10 securities		\$106,041	39.4%					6.6%
CFS Retail Property Trust	Australia	n/a	n/a	\$5.3	14.7	0.9	n/a	6.8%
Hongkong Land Holdings Ltd	Hong Kong	n/a	n/a	\$10.2	14.9	0.9	n/a	3.0%
Land Securities Group PLC	Britain	n/a	n/a	\$7.3	19.5	1.0	n/a	4.4%
Link REIT/The	Hong Kong	n/a	n/a	\$5.5	20.6	1.3	n/a	4.9%
Mitsubishi Estate Co Ltd	Japan	n/a	n/a	\$21.7	35.5	1.6	n/a	0.9%
Simon Property Group Inc	United States	n/a	n/a	\$22.4	42.4	5.1	13.3%	3.1%
SL Green Realty Corp	United States	n/a	n/a	\$3.9	67.8	0.9	14.8%	1.0%
Unibail-Rodamco SE	France	n/a	n/a	\$17.9	15.5	1.1	n/a	5.7%
Vornado Realty Trust	United States	n/a	n/a	\$11.9	32.0	2.2	94.1%	4.0%
Westfield Group	Australia	n/a	n/a	\$31.2	13.3	1.1	n/a	5.7%
Challenger Heitman - Top 10 securities		\$25,568	9.5%					7.3%
Digital Realty Trust Inc	United States	n/a	n/a	\$3.9	27.5	4.4	37.7%	3.4%
Equity Residential	United States	n/a	n/a	\$10.2	335.6	2.1	72.8%	3.7%
HCP Inc	United States	n/a	n/a	\$8.5	28.8	1.6	120.2%	6.1%
Health Care REIT Inc	United States	n/a	n/a	\$5.2	25.4	1.5	107.3%	6.4%
Highwoods Properties Inc	United States	n/a	n/a	\$2.1	40.2	2.0	66.0%	5.8%
Public Storage	United States	n/a	n/a	\$14.1	26.6	2.5	55.3%	2.7%
Simon Property Group Inc	United States	n/a	n/a	\$22.4	42.4	5.1	13.3%	3.1%
Unibail-Rodamco SE	France	n/a	n/a	\$13.3	15.5	1.1	n/a	5.7%
Vornado Realty Trust	United States	n/a	n/a	\$11.9	32.0	2.2	94.1%	4.0%
Westfield Group	Australia	n/a	n/a	\$27.4	13.2	1.1	n/a	5.7%
International listed property hedge		\$0	0.0%					n/a
NEW ZEALAND PROPERTY STRATEGY			0.0%					
NZ Funds - Complete portfolio		\$0	0.0%					n/a
Goodman Property Trust	New Zealand	\$0	0.0%	\$0.9	11.5	1.0	93.0%	12.0%
Property For Industry	New Zealand	\$0	0.0%	\$0.2	15.2	1.0	100.0%	9.1%
Kiwi Income Property Trust	New Zealand	\$0	0.0%	\$0.8	13.0	0.7	97.0%	10.4%
AMP Office Trust	New Zealand	\$0	0.0%	\$0.7	11.6	0.8	97.0%	11.8%
TOTAL ECONOMIC EXPOSURE⁵		\$269,139	100.0%					

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

INDICATIVE PORTFOLIO AS AT 31 MARCH 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 UltraShort Real Estate is an Exchange Traded Fund. It seeks daily investment results that correspond to twice (200%) the inverse (opposite) of the daily performance of the Dow Jones US RealEstate Index.
- ³ Stated in United States dollars for the international property strategy and New Zealand dollars for the New Zealand property strategy (if applicable).
- ⁴ This indicative portfolio is based on the most up-to-date information available. Total economic exposure is accurate as at 31 March 2010. Resolution Capital and Challenger Heitman information is as at 28 February 2010. The Portfolio should therefore be regarded as only indicative of the make up of the securities held by these managers as at 31 March 2010.

- ⁵ 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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