

MANAGER INSIGHT – 31 MAY 2010

The Portfolio has an allocation to global listed property trusts throughout the investment cycle. Periodically, the Portfolio will use a derivative to moderate the fluctuations of the share market, but the allocation to global listed property trusts endures. The bulk of this exposure is selected by the specialist listed property trust investment manager, Resolution Capital. This 'Manager insight' takes a closer look at Resolution Capital's current assessment of the environment, its thoughts from a recent tour, and the outlook for listed property trusts¹.

"Reporting season was lacklustre across most regions except Chinese developers who reported strong 2009 earnings per share growth following a lean 2008. China's stimulus initiatives led to a massive spike in lending, fuelling strong price and volume growth for the mainland residential developers. Subsequent fears of a property bubble has seen a reversal of government policy to rein in speculation, continuing the push-pull cycle of Chinese government policy impacting residential real estate. Elsewhere, 2009 results and 2010 earnings guidance reflected the impact the financial crisis has had on economic drivers which are delaying space absorption and consequent rental growth. Higher share counts from equity recapitalisations of 2009, plus elevated tenant incentive capital expenditure, combine to act as a drain on growth. "Flat is the new up" was how Simon Nyilassy, President/CEO of Canadian REIT Calloway, described the environment."

"During the quarter the Resolution Capital team toured the New South Wales Central Coast – Newcastle region, visiting shopping centres and residential projects owned by Westfield, Stockland, GPT Group, CFS Retail Property

Trust and Mirvac. Retail conditions appear to generally be solid with most reporting sales increases in the range of 3% to 6% driven by supermarkets and mini-majors. Stockland Greenhills and Glendale were both trading very strongly, the latter a unique asset in the Australian market due to its open-air design. GPT Group's massive cap-ex program in the Newcastle region is of some concern for us, particularly the mooted redevelopment of the Newcastle CBD site. It is an ambitious project which could potentially re-invigorate the city and with many community benefits. However in our view the significant cost, competition and nature of the trade area gives us cause for concern. Meanwhile Mirvac's residential development on the site of the former Newcastle Hospital appears to us to have too many high-priced penthouse apartments for the size of this market."

"Financial market regulation may yet impact all asset classes as shifting ground rules alter the availability and cost of capital. More particularly for real estate, the impact is most likely to be felt on office market dynamics. If proposals succeed to break-up the 'too-big-to-fail' investment banking goliaths we could see a shift in the size, type and locational requirements driving office space demand in the larger financial hubs. New York landlords have already reported leasing activity to newly established investment boutiques set up by former employees of larger investment banks. We remain focused on investing in good quality real estate with strong recurring cash flows where management has the capability and capacity to exploit both internal and external growth opportunities."

¹ Resolution Capital, Global Property Securities Fund. March 2010. Quarterly Investment Report.

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

GPP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	ProShares	Resolution; Challenger/Heitman	Resolution; Challenger/Heitman
Neutral	Cash	Cash	Cash; New Zealand property
Negative	Resolution; Challenger/Heitman	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*	-2.79%	1.21%	0.43%	-	-	-	-	0.92%	-4.33%
New Zealand inflation**	0.17%	0.46%	0.64%	-	-	-	-	0.60%	-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 MAY 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 MAY 2010 (PART 1)⁴

PORTFOLIO SUMMARY

Yield ¹	4.5%
Cash	42%
Gross international listed property	47%
International listed property hedge ²	-23%
Net international listed property	24%
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			41.6%					
Bank deposits / Bank bills	New Zealand	\$124,251	41.6%	n/a	n/a	n/a	n/a	2.8%
INTERNATIONAL PROPERTY STRATEGY			58.3%					
Resolution Capital - Top 10 securities		\$111,408	37.3%					6.6%
Essex Property Trust Inc	United States	n/a	n/a	\$3.1	160.7	2.9	649.8%	4.0%
Hongkong Land Holdings Ltd	Hong Kong	n/a	n/a	\$10.9	18.4	0.9	60.0%	3.3%
Land Securities Group PLC	Britain	n/a	n/a	\$6.8	16.5	0.8	77.2%	4.7%
Link REIT/The	Hong Kong	n/a	n/a	\$5.4	18.0	1.3	90.7%	5.0%
Mitsubishi Estate Co Ltd	Japan	n/a	n/a	\$21.3	30.1	1.6	25.7%	0.9%
Simon Property Group Inc	United States	n/a	n/a	\$24.8	32.0	5.6	92.5%	2.9%
SL Green Realty Corp	United States	n/a	n/a	\$4.7	93.2	1.1	56.2%	0.6%
Unibail-Rodamco SE	France	n/a	n/a	\$14.2	13.2	1.0	84.9%	6.4%
Vornado Realty Trust	United States	n/a	n/a	\$13.8	38.1	2.6	130.7%	3.4%
Westfield Group	Australia	n/a	n/a	\$35.2	14.1	1.2	71.1%	5.1%
Challenger Heitman - Top 10 securities		\$28,076	9.4%					7.3%
AvalonBay Communities Inc	United States	n/a	n/a	\$8.0	68.4	2.5	91.1%	3.7%
Equity Residential	United States	n/a	n/a	\$12.5	34.4	2.6	72.9%	3.1%
HCP Inc	United States	n/a	n/a	\$9.2	30.7	1.7	120.2%	5.9%
Health Care REIT Inc	United States	n/a	n/a	\$5.3	26.2	1.5	107.3%	6.4%
Highwoods Properties Inc	United States	n/a	n/a	\$2.1	48.1	2.0	66.0%	5.9%
Public Storage	United States	n/a	n/a	\$15.7	38.9	2.9	39.1%	3.3%
Simon Property Group Inc	United States	n/a	n/a	\$24.8	40.9	5.6	118.3%	2.9%
Unibail-Rodamco SE	France	n/a	n/a	\$11.6	13.7	1.0	88.0%	6.4%
Vornado Realty Trust	United States	n/a	n/a	\$13.8	36.3	2.6	94.1%	3.4%
Westfield Group	Australia	n/a	n/a	\$29.1	14.6	1.2	74.4%	5.1%
International listed property hedge		\$34,647	11.6%					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		\$298,680	100.0%					

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

INDICATIVE PORTFOLIO AS AT 31 MAY 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 Real Estate 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 May 2010. Resolution Capital information is as at 30 April 2010. Challenger Heitman information is as at 31 March 2010. The Portfolio should therefore be regarded as only indicative of the make up of the securities held by these managers as at 31 May 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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