

Manager insight – 31 December 2009

The Portfolio's objective is to protect against inflation, which was running at 2.15%¹ for the first nine months of 2009. This is equivalent to 0.24% a month or 2.87% for the year.

Listed property trust insight: Goodman Property Trust

The Portfolio has 2.3% of its assets invested in Goodman Property Trust (GMT), which recently released its 2010 interim result. It was a respectable result given the very tough environment. As expected, property values have been revalued down, but at a more modest rate than over the previous year. Occupancy levels remain strong and rents are up. Interest costs are higher, but pleasingly the company has confirmed guidance of earnings and dividend.

GMT's management have faced a severe test and come through it well. Although management have built an excellent portfolio of assets (best exemplified by Highbrook Business Park), questions were raised in 2008 when their ambitious growth programme saw the bare land portion of the portfolio rise to nearly 14% and the total development portion to over 17%. When the recession came and land values fell, GMT's debt burden began to look a little frightening. However, management has deftly managed down its debt by selling a large number of smaller assets. This activity kept the trust well away from its banking covenants – its loan to valuation ratio stands at 35.5% versus a covenant of 45%. As a result, unit holders were not forced to participate in a deeply discounted rights issue or have their future returns severely diluted.

Interestingly, GMT announced at the same time as the result that it is looking to raise \$100m via a bond issue. Diversifying its funding in this way further illustrates that management continues to be very focused on debt management.

With debt levels well under control, the trust is set to reap the benefits. GMT are specialists in developing, owning and managing industrial and offices parks and its expertise in this area is second to none. Moreover, it has by far the most attractive growth potential of any of the listed property trusts due to its development programme which the market punished it for just months ago. As the table below illustrates, compared to its peers, it has far higher internal growth opportunities.

Property trust	Share price	Portfolio size at 30 Sep 09 (\$m)	Development land or property in development (\$m)	Development land or property in development (%)	FY10 cash yield
AMP NZ Office Trust	\$0.77	\$1,395	-	-	10.8%
Goodman Property Trust	\$1.06	\$1,497	\$202	13.5%	11.3%
ING Property Trust	\$0.76	1051.6*	-	-	14.2%
ING Medical Properties	\$1.17	286.20**	-	-	10.3%
Kiwi Income Property Trust	\$1.03	\$1,783	\$15	0.8%	10.3%
Property for Industry	\$1.20	\$345	\$1	0.3%	8.5%

Source: Bloomberg. *As at 31 March 2009. **As at 30 June 2009.

For NZ Funds the appeal of GMT is simple, it offers great assets at a great price. With an effective cash yield of nearly 12% investors are well rewarded in the short term, while further out the benefits of the development land should deliver solid capital gains.

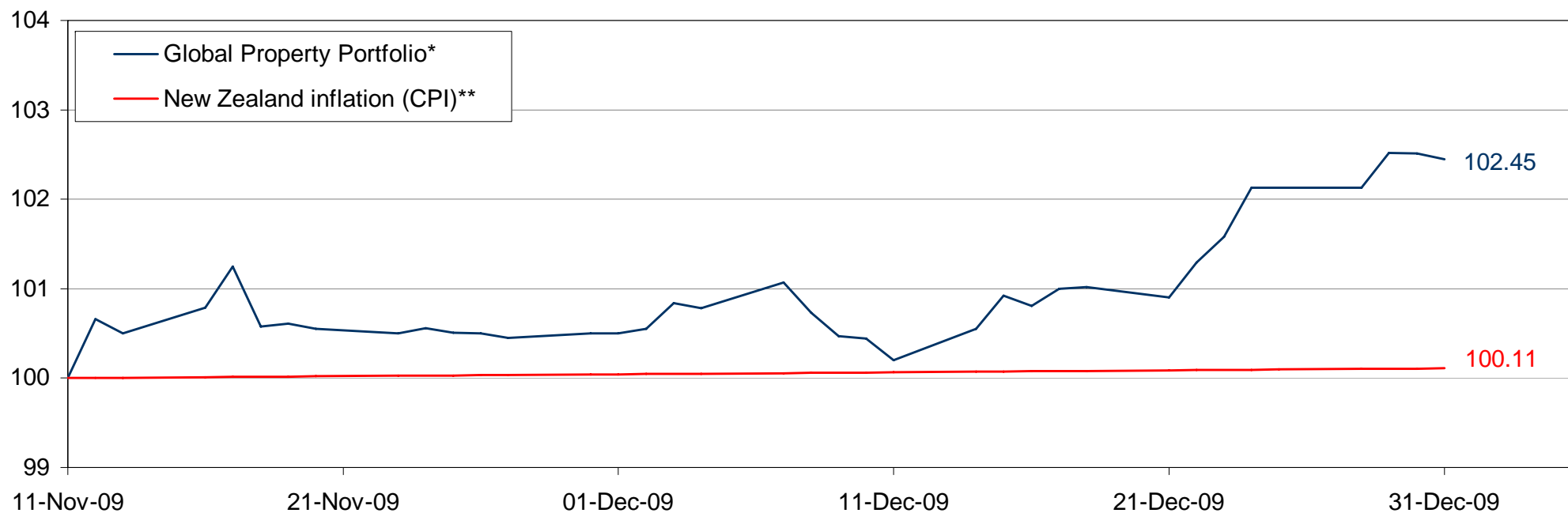
¹ Source: Bloomberg.

Global Property Portfolio



Performance since inception (11 November 2009) to 31 December 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 drawdownx
Portfolio*	1.94%	-	-	-	-	-	-	2.45%	-1.04%
New Zealand inflation**	0.07%	-	-	-	-	-	-	0.11%	0.00%

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

Performance since inception (11 November 2009) to 31 December 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					
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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