

Portfolio overview – 31 May 2009

Needs category objective

- Meet the need of an investor to protect their future spending from the effects of inflation.

Investment objective

- A unique investment objective, namely to protect investors from the wealth destruction of inflation through investing in a conservative blend of inflation-sensitive investments.

Key features

- Generate capital growth in an inflationary environment in a manner that provides capital stability over the minimum investment time frame, with the potential for higher returns than bank deposits.
- Owns a defensive blend of assets whose returns are positively correlated with inflation including: cash, government-issued inflation-protected bonds, government bonds, corporate bonds, global and Australasian shares.

Risk management

- Maintaining a low exposure to global share markets. Risk is further reduced using NZ Funds' risk management strategy to manage risks associated with changes in interest rates and share market volatility.
- Diversification benefits are maximised by including investments managed by different managers, with varying investment approaches across a number of asset classes. This should lead to differences in returns across the Portfolio and thus diversification benefits.

Return enhancement

- Portfolio construction is designed to achieve the investment objective. Investments are included that should provide strong returns in periods of high inflation.
- Returns are further enhanced through a combination of superior investment manager selection and active asset allocation between a wide and varying selection of growth and income investment opportunities.

Manager insight – 31 May 2009

Since November 2007, the global economy has been at more risk of experiencing deflation (falling global commodity and asset prices) than inflation. Consequently, the investment priority for the Mid Term Growth Portfolio has been to preserve clients' capital. The Portfolio's defensive blend of cash and government bonds, complemented by a small exposure to hedged global shares, continues to deliver a stable return. The Portfolio returned 0.00%¹ in May, taking the year-to-date return to 0.95%¹.

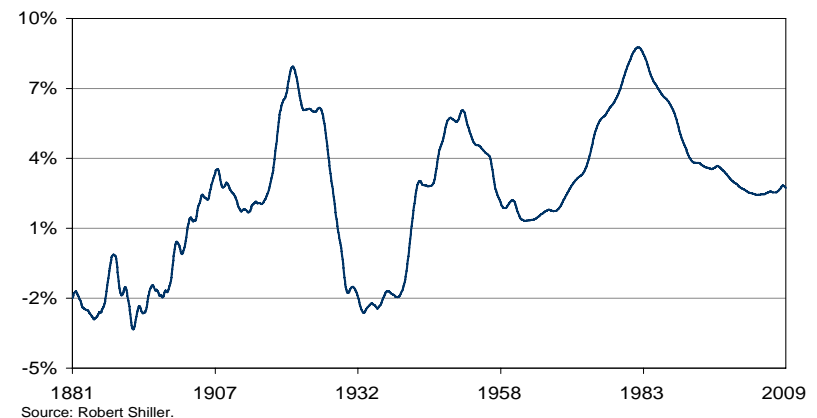
Inflation is of the utmost importance to New Zealanders' provisioning for retirement. However, following Paul Volker's commitment to beat the rampant inflation of the 1970s, and his subsequent success in the 1980s, inflation has receded as a risk in most investors' minds. But make no mistake, it will be back. A significant reason for investing is to maintain one's standard of living in retirement. Investment returns to New Zealanders in retirement may, in the future, be of less importance than being able to purchase the same grocery items weekly or enjoying an annual vacation. Positive returns are no consolation to the couple who have had to exchange their retirement home for a park bench because inflation has grown faster than their savings. Or as Chicago White Sox baseballer Sam Ewing wryfully reflected, "Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair."

In their rush to exit investment markets and replace them with the apparent safety of a bank deposit, New Zealanders are forgetting that

there are two ways to destroy a lifetime of savings. Inflation can destroy investors' purchasing power as sure as a share market crash or property market slump can. After only five years of inflation at 10%, consumers require an additional \$0.61 cents for every dollar held in order to preserve the purchasing power of their capital.

Should today's 'unprecedented' fiscal and monetary stimulus rekindle an inflationary boom of the same magnitude as in the 1970s, then capturing asset price appreciation through the ownership of real assets combined with inflation-orientated defensive assets (such as the inflation-protected bonds issued by the governments of the United States, United Kingdom and Japan that are held in the Mid Term Growth Portfolio) may prove to be a better approach to maintaining spending power than a bank deposit.

Average 10-year US inflation rate

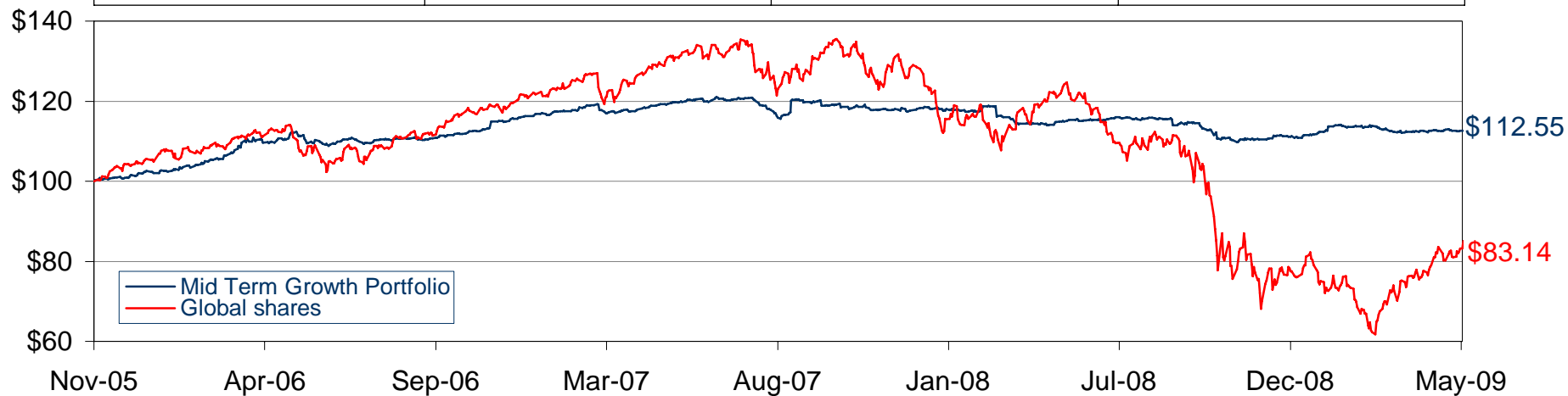


¹ Returns are stated after Portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns.

Mid Term Growth Portfolio

Performance since last mandate change (3 November 2005) to 31 May 2009

| Performance attribution | One month | Three month | Six month |
|-------------------------|----------------------------|-------------|-----------|
| Positive | Lazard; Franklin Templeton | - | - |
| Neutral | Cash; NZ govt bonds | - | - |
| Negative | T Rowe Price | - | - |



| One-month return | Three-month return | Six-month return | One-year return | Since mandate change return pa |
|------------------|--------------------|------------------|-----------------|--------------------------------|
| 0.00% | -0.94% | 1.65% | -2.19% | 3.36% |

Source: Bloomberg. 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. Last mandate change was in November 2005. Global shares represented by MSCI World Index in local currency. The asset class index in the chart (MSCI World Index) is not for benchmarking purposes but rather to demonstrate the performance of the largest asset class allocation in the Portfolio.

Mid Term Growth Portfolio

Portfolio summary as at 31 May 2009

Portfolio summary

| | |
|--|------|
| Income strategies (before share hedge) | 78% |
| Growth strategies (before share hedge) | 22% |
| Yield/Interest | 3.7% |

| Sector / Security | Manager | Portfolio value | Proportion of portfolio | Yield / Interest rate |
|---|--------------------|---------------------|-------------------------|-----------------------|
| Income strategies | | | 102% | |
| Cash - Bank deposits | NZ Funds | \$14,107,465 | 27% | 2.5% |
| Cash - Bank bills | NZ Funds | \$14,293,019 | 27% | 2.7% |
| Loans (via Private Loan Trust) | NZ Funds | \$1,493,277 | 3% | 7.6% |
| NZ government bonds | NZ Funds | \$4,386,051 | 8% | 5.3% |
| Global government bonds | Franklin Templeton | \$3,618,678 | 7% | 6.7% |
| Investment Grade corporate bonds | PIMCO | \$3,600,238 | 7% | 5.7% |
| Share hedge* | NZ Funds | \$12,623,101 | 24% | 2.5% |
| Growth strategies | | | -2% | |
| Australasian shares - High dividend yield | NZ Funds | \$795,597 | 2% | 8.4% |
| Global shares - Core | Lazard | \$3,584,436 | 7% | 3.9% |
| Global shares - Growth | T Rowe Price | \$4,452,990 | 8% | 2.0% |
| Global shares - High dividend yield | Tweedy Browne | \$2,590,372 | 5% | 5.2% |
| Share hedge** | NZ Funds | -\$12,623,101 | -24% | 2.5% |
| Total | | \$52,922,124 | 100% | 4% |
| Currency | | | | |
| Foreign currency exposure | NZ Funds | Fully hedged | 0% | |

*The effect of the share hedge is to remove the impact of changes in global shares on the Portfolio. Actual performance will depend on whether the respective manager under or outperforms the global share benchmark. In addition to this manager outperformance, the Portfolio receives a cash return on the hedged assets.**The share hedge applies to 100% of global shares, however, at times it may also apply to a portion of the Australasian shares due to the size of the hedge contracts being purchased. 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.

DISCLAIMER: This document has been provided for information purposes only. The content of this document is not intended as a substitute for specific professional advice on investments, financial planning or any other matter.

While the information provided in this document is stated accurately to the best of our knowledge and belief, New Zealand Funds Management Limited, its directors, employees and related parties accept no liability or responsibility for any loss, damage, claim or expense suffered or incurred by any party as a result of reliance on the information provided and opinions expressed in this document except as required by law.