MANAGER INSIGHT – 30 APRIL 2010

The Portfolio's objective is to protect against inflation, which over the first quarter of 2010 was up 0.37%[2] which equates to 0.49%[2] year to date. The Portfolio continues to comfortably achieve this objective – it is up 1.05%[1] year to date. One allocation that assists in achieving this objective is the Portfolio's investment in the Global Property strategy. This strategy combines listed property in both New Zealand and offshore listed property trusts with a capital protection strategy designed to reduce losses in volatile markets.

The selection of the offshore listed property trusts is outsourced to two specialists in the area. These specialists have teams of analysts and portfolio managers searching for the best listed trusts and combining them to provide an attractive exposure to property. One of the specialist managers selecting offshore property trusts is a joint venture between Challenger Financial Services Group (an Australian-based financial services firm) and Heitman (a multi-national real estate investment management firm with approximately US$24.2 billion in assets under management). Their portfolios are split geographically – Challenger oversees the selection of listed property trusts in the Asia and pacific region and Heitman selects the trusts listed on the American and European exchanges.

In a recent research piece, Heitman outlined its thoughts on industrial property highlighting the opportunities in the United States warehouse market. This 'Manager insight' summarises this article. Heitman contends:

"Conditions in the industrial market tend to respond to the broader economic environment in close to real time. In particular, the industrial market tends to lead the office market going into a downturn, but also tends to lead it on the way out."
Klinksiek and Adachi, The coming recovery in industrial property: opportunities in the U.S. warehouse market, April 2010

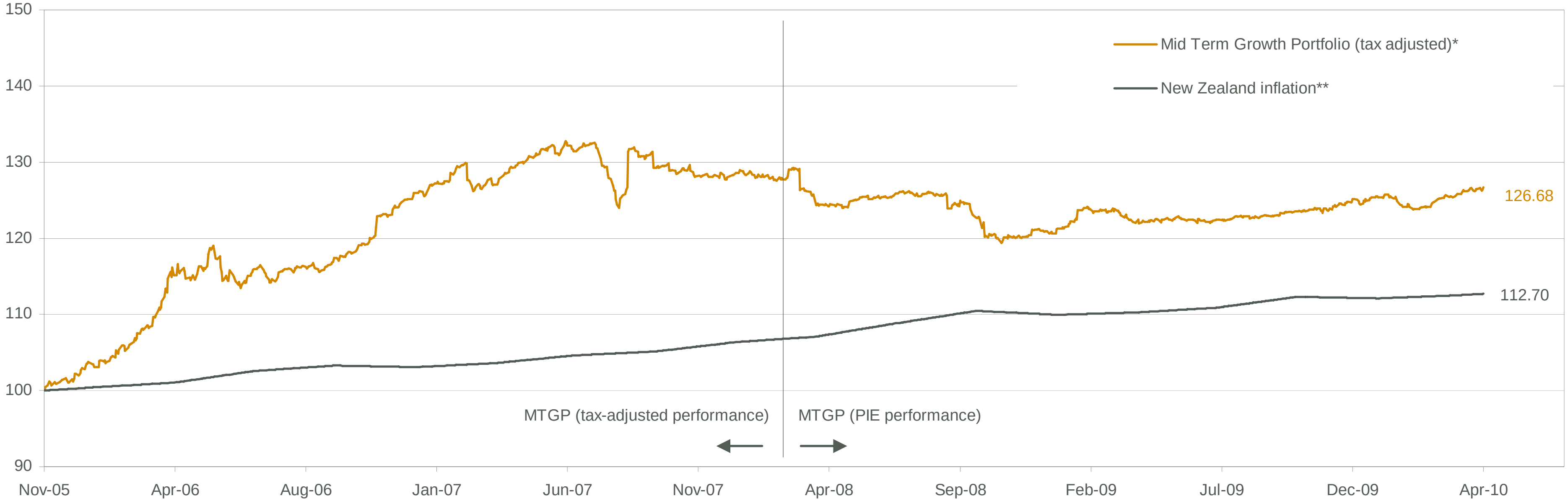
Heitman backs up this contention by first showing that, historically, changes in office rents have lagged those of the industrial market; then explains why this occurs. There are three factors that cause the industrial property market to react rapidly to changes in the economic environment. The first argument is based on the length of an average lease. Leases in the industrial market are significantly shorter than retail or office markets. This flexibility means that changes in the broader economy more rapidly flow through to demand for industrial space. The second argument is that industrial property has a relatively short development process. This allows growth in the supply of space to be more readily altered which should mean oversupply does not build to the same extent as other sectors of the property market. Finally, the demand for industrial space is closely related to the inventory cycle which is tied to the economic cycle.

In conclusion, this article presents some compelling evidence that industrial property will perform strongly in the coming months and years. This, of course, should be reflected by strong performance of the industrial component of the global property strategy which should boost the performance of this Portfolio.

[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. [2] Source: Bloomberg.

TAX-ADJUSTED PERFORMANCE SINCE MANDATE CHANGE (3 NOVEMBER 2005) TO 30 APRIL 2010* (PART 1)

MTGP PERFORMANCE ATTRIBUTION	1 MONTH	3 MONTH	6 MONTH
Positive	Bonds; property	Bonds; global shares; property	Bonds; global shares; property
Neutral	Cash	Cash	n/a
Negative	Global shares; equity manager alpha	Equity manager alpha	Equity manager alpha; cash



COMPARISON	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	5 YEAR PA	7 YEAR PA	SINCE MANDATE CHANGE[1]	MAXIMUM DRAWDOWN[x]
Portfolio*	0.69%	2.03%	2.23%	3.51%	1.09%	-	-	26.68%	-10.03%
New Zealand inflation**	0.16%	0.40%	0.41%	2.03%	2.32%	-	-	12.70%	-0.46%

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

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TAX-ADJUSTED PERFORMANCE SINCE MANDATE CHANGE (3 NOVEMBER 2005) TO 30 APRIL 2010* (PART 2)

Tax-adjusted Performance

* Tax-adjusted performance for the Mid Term Growth Portfolio (MTGP) is stated after portfolio fees and expenses, but before any advisory fees or investor tax. Past performance is not necessarily an indication of future returns. The Portfolio's mandate was changed on 3 November 2005, providing clients with a portfolio that allows them to protect their purchasing power from the effects of inflation.

MTGP was established as a New Zealand Unit Trust. In calculating the tax-adjusted performance for MTGP the return prior to 30 September 2007 has been 'grossed up' at 33% (being the tax rate applicable to a New Zealand Unit Trust) to reflect that previously tax was paid within the trust. The tax-adjusted performance is designed to remove, as much as possible, the impact of the tax paid by the Portfolio during the calculation period. By doing so it enables the returns from MTGP to be represented in a substantially consistent manner throughout the measurement period.

The tax-adjusted performance covers two different tax regimes, and accordingly two different calculation methods are applied. The two calculation periods are:

i) The period pre 30 September 2007 (being the period prior to the introduction of the PIE regime);

ii) The period post 1 October 2007 (being the date from which MTGP was subject to the PIE regime).

This calculation is undertaken for comparative purposes only, and should not be confused with the return generated from the Mid Term Growth Portfolio.

More details on these calculations, together with the formulae used, are available on request from New Zealand Funds Management.

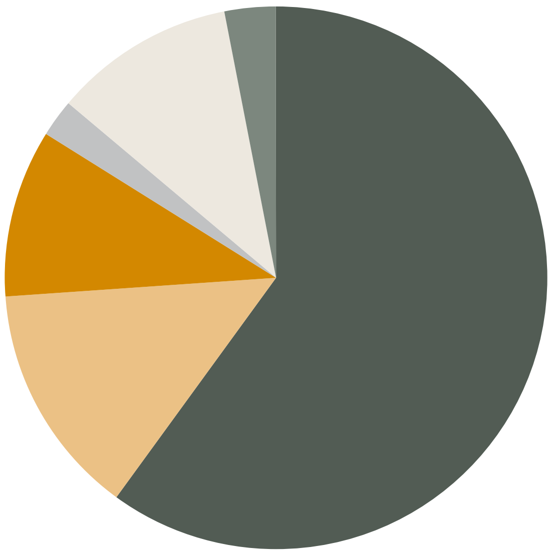
Comparative Index

** The comparative index is New Zealand's inflation rate as measured by the Consumers Price Index. Source: Bloomberg.

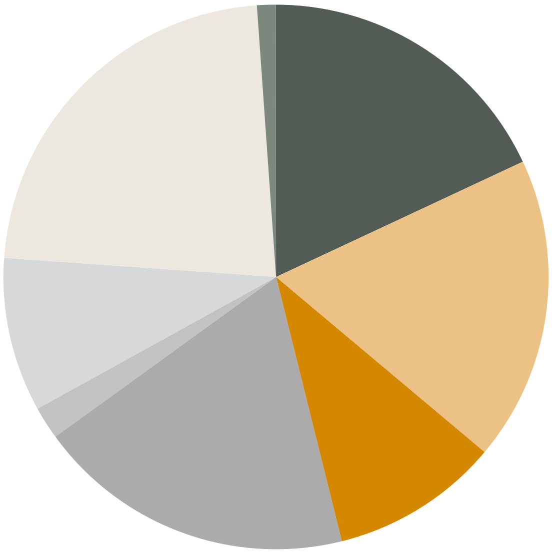
Maximum Drawdown

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.

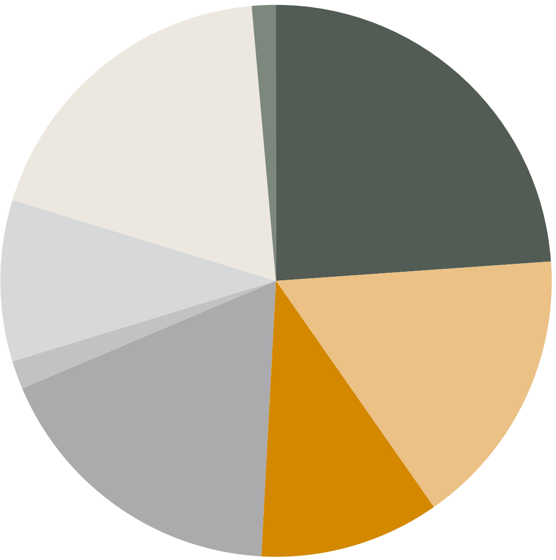
ASSET ALLOCATION (%)



CASH	60
INFLATION-LINKED GOVERNMENT BONDS	14
GOVERNMENT BONDS	10
LOANS	2
GLOBAL SHARES (HEDGED)	11
AUSTRALASIAN SHARES (HEDGED)	3
TOTAL	100



CASH	18
INFLATION-LINKED GOVERNMENT BONDS	18
GOVERNMENT BONDS	10
CORPORATE BONDS	19
LOANS	2
GLOBAL PROPERTY	9
GLOBAL SHARES (HEDGED)	23
AUSTRALASIAN SHARES (HEDGED)	1
TOTAL	100



CASH	24
INFLATION-LINKED GOVERNMENT BONDS	17
GOVERNMENT BONDS	10
CORPORATE BONDS	18
LOANS	2
GLOBAL PROPERTY	9
GLOBAL SHARES (PARTIALLY HEDGED)	19
AUSTRALASIAN SHARES (UNHEDGED)	1
TOTAL	100

COMPLETE PORTFOLIO AS AT 30 APRIL 2010

PORTFOLIO SUMMARY

Yield[1]	5.1%
Income strategies (before share hedge)	70%
Growth strategies (before share hedge)	30%
Currency strategies	0%
Total economic exposure	100%

STRATEGY / SECURITY	MANAGER	ASSET CLASS	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	YIELD
INCOME STRATEGIES				**81.4%**	
Bank deposits / Bank bills	NZ Funds	Cash	$16,283,850	23.9%	2.6%
Investment-grade corporate bonds	PIMCO	Corporate bonds	$6,422,014	9.4%	7.2%
Investment-grade corporate bonds	iShares	Corporate bonds	$5,700,537	8.4%	7.1%
United States inflation-linked government bonds	NZ Funds	Government bonds	$5,189,256	7.6%	5.5%
New Zealand inflation-linked government bonds	NZ Funds	Government bonds	$3,239,500	4.8%	5.2%
German inflation-linked government bonds	NZ Funds	Government bonds	$2,803,436	4.1%	4.9%
Global government bonds	Franklin Templeton	Government bonds	$3,575,170	5.3%	6.3%
German government bonds	NZ Funds	Government bonds	$1,196,695	1.8%	5.3%
United States government bonds	NZ Funds	Government bonds	$1,181,343	1.7%	6.2%
United Kingdom government bonds	NZ Funds	Government bonds	$1,082,713	1.6%	6.1%
Loans (via Private Loan Trust)	Fidelity	New Zealand direct loans	$1,130,912	1.7%	7.6%
Share hedge cash[2]	NZ Funds	Cash	$7,533,935	11.1%	2.6%
GROWTH STRATEGIES				**18.6%**	
Global property	Challenger/Resolution/NZ Funds	Global property	$6,325,625	9.3%	4.5%
Global shares - Core	Lazard	Global shares	$4,208,586	6.2%	5.4%
Global shares - Growth	T Rowe Price	Global shares	$4,236,012	6.2%	5.2%
Global shares - Utilities	NZ Funds	Global shares	$3,179,742	4.7%	7.0%
Global shares - High dividend yield	Tweedy Browne	Global shares	$1,338,999	2.0%	6.6%
Australasian shares - High dividend yield	NZ Funds	Australasian shares	$915,657	1.3%	6.7%
Commodities	Standard & Poor's	Commodities	$0	0.0%	n/a
Share hedge[2]	NZ Funds	Global shares	-$7,533,935	-11.1%	2.6%
CURRENCY STRATEGIES				**0.0%**	
Foreign currency exposure	NZ Funds	Fully hedged	$0	0.0%	n/a
TOTAL ECONOMIC EXPOSURE[3]			**$68,010,049**	**100.0%**	**5.1%**

[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] The effect of the share hedge is to reduce the allocation to shares and increase the allocation to cash. [3] 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.

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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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