

MANAGER INSIGHT – 31 MAY 2010

The Portfolio returned -1.46%¹ in May. While negative performance is always disappointing, it should be put into context. May was an extremely tough month in the markets. In this regard, the Portfolio weathered the market volatility relatively well. A careful analysis of this month's Portfolio breakdown will uncover a number of changes that were made to the Portfolio over the month of May. One of these changes was the addition of Transpower's recently issued inflation-linked bond. This bond, and the other inflation-linked bonds in the Portfolio, offer a return that is protected against inflation – an attribute that is particularly attractive given increased inflation expectations.

The credit quality of the bond's issuer, Transpower, is an attribute that makes this bond a compelling addition to the Portfolio. Transpower owns and operates New Zealand's high-voltage electricity transmission grid, which transports electricity from generation facilities to households and businesses around the country. It is impossible for Transpower's customers to avoid using this grid as there are no competitors or substitutes. This provides confidence that it will be able to generate sufficient cash to pay the interest and principal repayments and its other debt obligations. In the unlikely event that Transpower gets into financial difficulty, the implicit guarantee provided by the New Zealand government (the owner of Transpower) would provide a useful backstop.

Inflation-linked bonds tend to have relatively low interest rates, but this is compensated by their capital value and interest payments being linked to

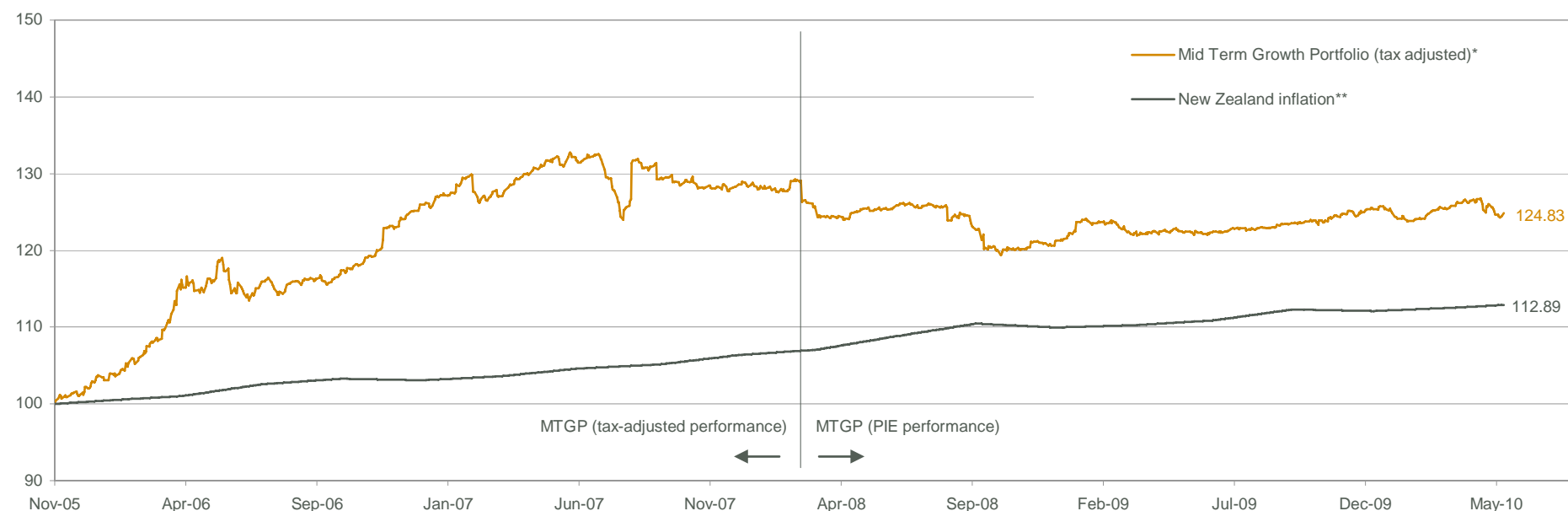
rises in the Consumer Price Index. In the case of this bond, Transpower pays an interest rate of just over 4.1%, which is approximately 1.5% below the yield of the government bond with the same maturity. But the advantage of inflation-linking should more than cover this short fall – the New Zealand Treasury increased its forecast of the rate of growth in the Consumer Price Index to 5.9% in the budget for the year ending March 2011. If you combine the bond's running yield of 4.1% pa with inflation projections for the first year of the bond of around 5.9% pa, you are looking at a 10% return.

Attractive returns and good credit quality are not the only motivations for adding the Transpower inflation-linked bond to the Portfolio. Once issued, the value of normal bonds vary depending on the current interest rate investors require for the time to maturity of the bond. This creates the potential for negative returns from even the highest credit quality bond investments – if the required yield to maturity increases, the price of the bond has to decline to compensate. There are two reasons why investors require a higher rate of interest – inflation expectations have increased or they demand a higher real rate of interest. For portfolios focused on protecting clients against the impact of inflation, increasing interest rates due to increasing inflation expectations is the more sinister risk. Making losses on bond investments when inflation is increasing is less than ideal, but inflation-linked bonds avoid this risk. The combination of good returns, good credit quality and inflation protection make the Transpower bond an attractive addition to the 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 31 MAY 2010* (PART 1)

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



COMPARISON	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	5 YEAR PA	7 YEAR PA	SINCE MANDATE CHANGE ¹	MAXIMUM DRAWDOWN*
Portfolio*	-1.46%	0.55%	0.09%	1.99%	-0.12%	-	-	24.83%	-10.03%
New Zealand inflation**	0.17%	0.46%	0.64%	2.01%	2.12%	-	-	12.89%	-0.46%

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

TAX-ADJUSTED PERFORMANCE SINCE MANDATE CHANGE (3 NOVEMBER 2005) TO 31 MAY 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:

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

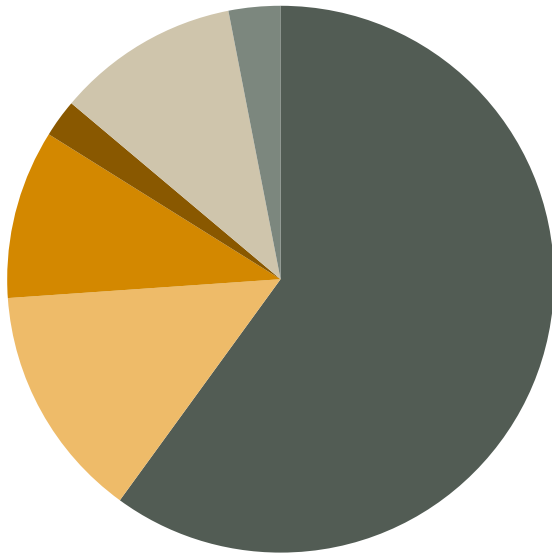
- ** The comparative index is New Zealand's inflation rate as measured by the Consumers Price Index. Source: Bloomberg.

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.

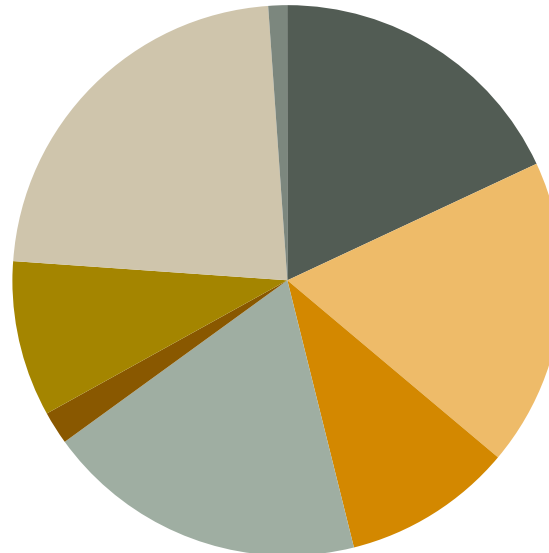
ASSET ALLOCATION (%)

January 2009



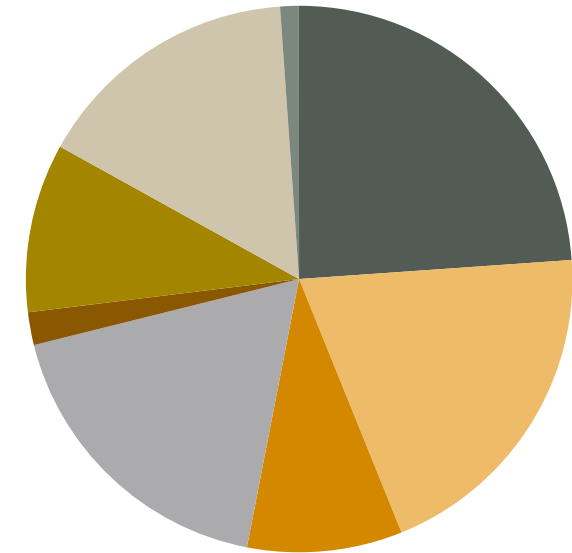
● CASH	60
● INFLATION-LINKED GOVERNMENT BONDS	14
● GOVERNMENT BONDS	10
● LOANS	2
● GLOBAL SHARES (HEDGED)	11
● AUSTRALASIAN SHARES (HEDGED)	3
TOTAL	100

January 2010



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

May 2010



● CASH	24
● INFLATION-LINKED GOVERNMENT BONDS	20
● GOVERNMENT BONDS	9
● CORPORATE BONDS	18
● LOANS	2
● GLOBAL PROPERTY (PARTIALLY HEDGED)	10
● GLOBAL SHARES (PARTIALLY HEDGED)	16
● AUSTRALASIAN SHARES (UNHEDGED)	1
TOTAL	100

COMPLETE PORTFOLIO AS AT 31 MAY 2010

PORTFOLIO SUMMARY

Yield ¹	5.1%
Income strategies (before share hedge)	73%
Growth strategies (before share hedge)	27%
Currency strategies	0%
Total economic exposure	100%

STRATEGY / SECURITY	MANAGER	ASSET CLASS	PORTFOLIO VALUE	PORTFOLIO ALLOCATION	YIELD
INCOME STRATEGIES				78.8%	
Bank deposits / Bank bills	NZ Funds	Cash	\$16,901,750	24.2%	2.6%
Investment-grade corporate bonds	PIMCO	Corporate bonds	\$6,611,426	9.5%	7.2%
Investment-grade corporate bonds	iShares	Corporate bonds	\$5,918,966	8.5%	7.1%
United States inflation-linked government bonds	NZ Funds	Inflation-linked bonds	\$5,449,488	7.8%	5.3%
New Zealand inflation-linked government bonds	NZ Funds	Inflation-linked bonds	\$3,243,927	4.6%	5.1%
German inflation-linked government bonds	NZ Funds	Inflation-linked bonds	\$2,810,904	4.0%	4.8%
Transpower inflation-linked bonds	NZ Funds	Inflation-linked bonds	\$2,156,414	3.1%	7.1%
Global government bonds	Franklin Templeton	Government bonds	\$3,187,790	4.6%	6.5%
German government bonds	NZ Funds	Government bonds	\$1,166,713	1.7%	5.0%
United States government bonds	NZ Funds	Government bonds	\$1,151,745	1.6%	5.7%
United Kingdom government bonds	NZ Funds	Government bonds	\$1,055,586	1.5%	5.9%
Loans (via Private Loan Trust)	Fidelity	New Zealand direct loans	\$1,139,659	1.6%	7.6%
Share hedge cash ²	NZ Funds	Cash	\$4,227,976	6.1%	2.6%
GROWTH STRATEGIES				21.2%	
Global property	Challenger/Resolution/NZ Funds	Global property	\$7,136,873	10.2%	4.9%
Global shares - Core	Lazard	Global shares	\$4,014,930	5.7%	5.8%
Global shares - Utilities	NZ Funds	Global shares	\$3,550,136	5.1%	7.1%
Global sector strategy	NZ Funds	Global shares	\$3,503,150	5.0%	2.8%
Australasian shares - High dividend yield	NZ Funds	Australasian shares	\$863,907	1.2%	7.1%
Commodities	Standard & Poor's	Commodities	\$0	0.0%	n/a
Share hedge ²	NZ Funds	Global shares	-\$4,227,976	-6.1%	2.6%
CURRENCY STRATEGIES				0.0%	
Foreign currency exposure	NZ Funds	Fully hedged	\$0	0.0%	n/a
TOTAL ECONOMIC EXPOSURE³			\$69,863,365	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.

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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