

For the quarter ended 31 December 2016

NZ Funds Managed Portfolio Service Core Inflation Portfolio

This fund update was first made publicly available on 13 February 2017

What is the purpose of this update ?

This document tells you how the Core Inflation Portfolio has performed and what fees were charged. The document will help you to compare the fund with other funds. New Zealand Funds Management Limited prepared this update in accordance with the Financial Markets Conduct Act 2013. This information is not audited and may be updated.

Description of this fund

The objective of the Core Inflation Portfolio is to mitigate the impact of inflation on your investment over the medium and/or long term by investing in income-orientated assets and growth-orientated assets using an active investment management approach. The anticipated primary investments of the fund are a diversified range of inflation-sensitive assets.

Total value of the fund	\$127,637,641
The date the fund started	26 August 2000

What are the risks of investing?

Risk indicator for the Core Inflation Portfolio:



The risk indicator is rated from 1 (low) to 7 (high). The rating reflects how much the value of the fund's assets goes up and down. A higher risk generally means higher potential returns over time, but more ups and downs along the way.

To help you clarify your own attitude to risk, you can seek financial advice or work out your risk profile at www.nzfunds.co.nz/AdviceSolutions/RiskProfile/

Note that even the lowest category does not mean a risk-free investment, and there are other risks that are not captured by this rating.

The risk indicator is not a guarantee of a fund's future performance. The risk indicator is based on the returns data for the five years to 31 December 2016. While risk indicators are usually relatively stable, they do shift from time to time. The risk indicator will continue to be updated in future fund updates.

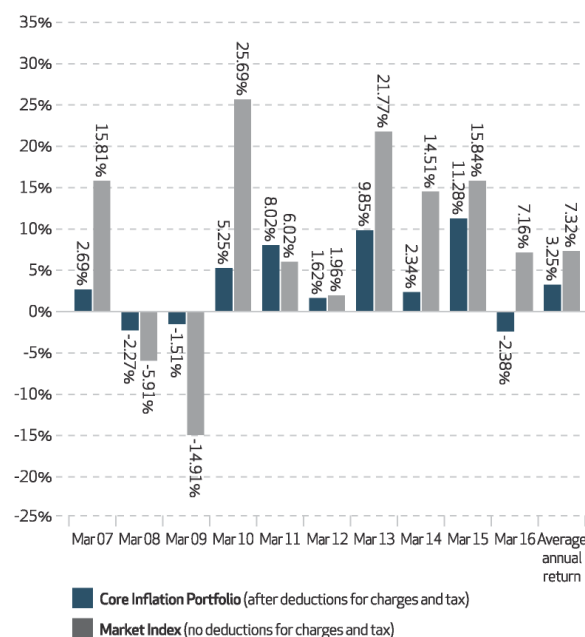
See the Product Disclosure Statement (PDS) for more information about the risks associated with investing in this fund.

How has the fund performed?

	Average over past 5 years	Past year
Annual return (after deductions for charges and tax)	4.75%	1.16%
Annual return (after deductions for charges but before tax)	4.33%	0.34%
Market index annual return (reflects no deduction for charges and tax)	13.91%	7.76%

The market index annual return is based on a composite index calculated using the market indices and weightings set out in the Statement of Investment Policy and Objectives (SIPO). Additional information about the market index is available on the offer register at www.companiesoffice.govt.nz/disclose.

Annual return graph¹



This shows the return after fund charges and tax for each of the last 10 years ending 31 March. The last bar shows the average annual return for the last 10 years, up to 31 December 2016.

Important: This does not tell you how the fund will perform in the future.

Returns in this update are after tax at the highest prescribed investor rate (PIR) of tax for an individual New Zealand resident. Your tax may be lower.

What fees are investors charged?

Investors in the Core Inflation Portfolio are charged fund charges. In the year to 31 March 2016 these were:

	% of net asset value
Total fund charges	3.22%
Which are made up of:	
Total management and administration charges	3.22%
Including:	
Manager's basic fee	1.75%
Other management and administration charges*	1.47% (estimate) ²
Total performance-based fees	0.00%

*Note: Included within 'Other management and administration charges' are performance-based fees charged by external managers of underlying funds that the fund invests into which totalled 0.37%. Performance-based fees are subject to market movements and external manager performance and the amount of these fees for any given period may materially differ from those disclosed for the year to 31 March 2016.

Investors may also be charged individual action fees for specific actions or decisions (for example, for withdrawing from or switching funds). See the PDS for the NZ Funds Managed Portfolio Service for more information about those fees.

Small differences in fees and charges can have a big impact on your investment over the long term.

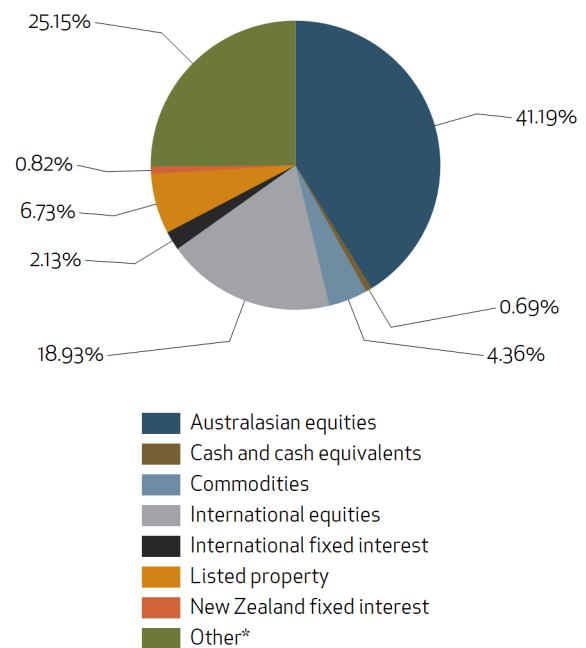
Example of how this applies to an investor

Liam had \$10,000 in the fund at the start of the year and did not make any further contributions. At the end of the year, Liam received a return after fund charges were deducted of \$116 (that's 1.16% of his initial \$10,000). Liam did not pay any other charges. This gives Liam a total return after tax of \$116 for the year.

What does the fund invest in?

This shows the types of assets that the fund invests in.

Actual investment mix³



Target investment mix⁴

Cash and cash equivalents	1%
New Zealand fixed interest	1%
International fixed interest	2%
Australasian equities	42%
International equities	19%
Listed property	6%
Commodities	4%
Other*	25%

*'Other' includes foreign currency and alternative security funds.

What does the fund invest in? (continued)

Top 10 investments

	Name	Percentage of fund net assets	Type	Country	Credit Rating
1	Chorus	8.27%	Australasian equities	New Zealand	
2	Westpac 32 day term deposit	7.67%	Cash and cash equivalents	New Zealand	A-1+
3	Meridian Energy	5.29%	Australasian equities	New Zealand	
4	Woodside Petroleum	4.37%	Australasian equities	Australia	
5	Rio Tinto	4.33%	Australasian equities	Australia	
6	Metlifecare	4.31%	Australasian equities	New Zealand	
7	Westpac current account	3.88%	Cash and cash equivalents	New Zealand	A-1+
8	American Homes 4 Rent 5% perpetual	3.23%	Listed property	United States of America	
9	MFA Financial	3.11%	Listed property	United States of America	
10	Sky City Entertainment	3.02%	Australasian equities	New Zealand	

The top 10 investments make up 47.48% of the fund.⁵

NZ Funds actively manages currency exposure and the fund may be fully hedged or unhedged.

Key personnel

This shows the directors and employees who have the most impact on the investment decisions of the fund.

Name	Current position	Time in current position	Previous or other position	Time in previous or other position
Richard James	Chief Executive, Chair of the Investment Committee and a Director	7 years 10 months	Chief Operating Officer, New Zealand Funds Management Limited	6 years 1 month
Michael Lang	Chief Investment Officer and a Director	8 years 4 months	Partner, Eclectica Asset Management	1 years 8 months
David Wilson	Investment Strategist and a Principal	20 years	Chief Economist, JB Were	3 years 5 months
Mark Brooks	Head of Income and a Principal	9 years 1 month	Senior Portfolio Manager, Credaris	3 years 4 months
Josh Wilson	Portfolio Manager	5 years 7 months	Equity Analyst, Collins Stewart	4 years

Further information

You can also obtain this information, the PDS for the NZ Funds Managed Portfolio Service, and some additional information from the offer register at www.companiesoffice.govt.nz/disclose/.

Notes

1. The bar graph shows fund returns after the deduction of fees and tax; however, the market index returns are shown before any fees or tax are deducted.
2. Other management and administration charges comprise:
 - (a) operating costs directly incurred by the fund; and
 - (b) annual management fees, performance-based fees and operating costs incurred by underlying funds the fund invests into.

Estimates were used when deriving annual management fees, performance-based fees and operating costs incurred by the following underlying funds the fund invests into.

Fund	Information and assumptions used to make estimates
-------------	---

Paulson International Fund	The fee and operating cost amount obtained from the administrator of the Paulson International Fund was for the year to 31 December 2015.
----------------------------	---

Astenbeck Offshore Commodities Fund II	The fee and operating cost amount obtained from the manager of Astenbeck Offshore Commodities Fund II was for the year to 31 December 2015.
--	---

3. NZ Funds uses derivatives as part of its active investment management approach. The use of derivatives can result in the total economic exposure of the fund exceeding 100% which means the fund is leveraged. Where economic exposure exceeds 100%, the actual investment mix pie graph and the target investment mix table have been scaled to 100%. Without scaling, the total economic exposure of the fund, as shown in the actual investment mix and the target investment mix, would be 146.10% and 146.00% respectively. For more information on economic exposure, see the NZ Funds Managed Portfolio Service 'Other Material Information' document on the offer register at www.companiesoffice.govt.nz/disclose/.
4. The fund is able to invest in a wide range of assets and does not have a target investment mix. For the purposes of this update, the target investment mix has been compiled using the actual investment mix. NZ Funds is an active investment manager and as a result the actual investment mix and target investment mix will change in the future and changes may be material.
5. The top 10 investments have been compiled using a balance sheet approach. This differs from the approach used in compiling the actual and target investment mixes, which include the impact of derivatives.

Manager

New Zealand Funds Management Limited
Level 16, Zurich House
21 Queen Street
Private Bag 92163
Auckland 1142
Attention: Head of Client Services
Phone 09 377 2277 or 0508 733 337
info@nzfunds.co.nz