

For the quarter ended 31 March 2018

NZ Funds Managed Portfolio Service Property Inflation Portfolio

This fund update was first made publicly available on 1 May 2018

What is the purpose of this update?

This document tells you how the Property 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 Property Inflation Portfolio is to mitigate the impact of inflation on your investment over the medium and/or long term by investing in income and growth assets using an active management approach. It is anticipated that the fund will mainly hold inflation-sensitive assets including cash and cash equivalents, and Australasian and international bonds, property shares and infrastructure shares. It may also invest in other permitted assets.

Total value of the fund \$86,726,987

The date the fund started 31 October 2008

What are the risks of investing?

Risk indicator for the Property 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 March 2018. 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.

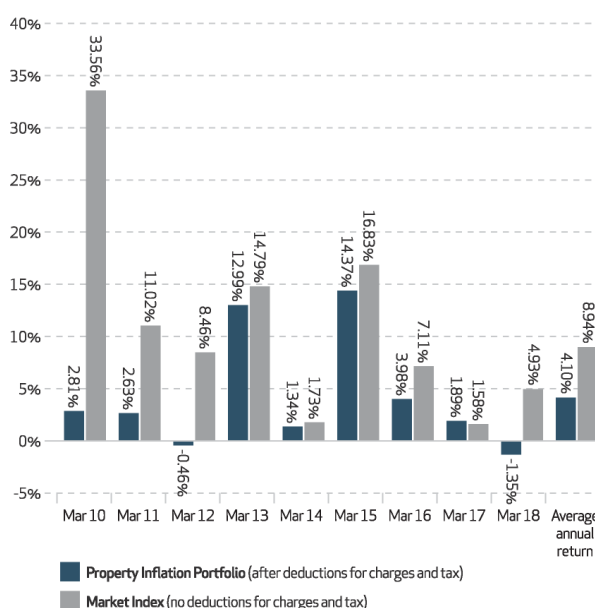
See the Product Disclosure Statement (PDS) for more information about the risks associated with investing in this fund.

How has the fund performed?

| | Average over past 5 years | Past year |
|--|---------------------------|-----------|
| Annual return (after deductions for charges and tax) | 3.91% | -1.35% |
| Annual return (after deductions for charges but before tax) | 4.40% | -1.00% |
| Market index annual return (reflects no deduction for charges and tax) | 6.30% | 4.93% |

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 year ending 31 March since the fund started. The last bar shows the average annual return since the fund started, up to 31 March 2018.

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 Property Inflation Portfolio are charged fund charges. In the year to 31 March 2018 these were:

| | % of net asset value |
|--|----------------------|
| Total fund charges | 2.79% |
| Which are made up of: | |
| Total management and administration charges | 2.79% |
| Including: | |
| Manager's basic fee | 1.75% |
| Other management and administration charges | 1.04% |
| Total performance-based fees | n/a |

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.

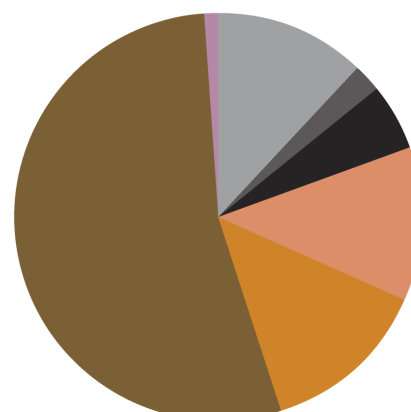
Example of how this applies to an investor

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 incurred a loss after fund charges were deducted of -\$135 (that's -1.35% of his initial \$10,000). Liam did not pay any other charges. This gives Liam a total loss after tax of -\$135 for the year.

What does the fund invest in?

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

Actual investment mix²



| | |
|------------------------------|--------|
| Cash and cash equivalents | 12.02% |
| New Zealand fixed interest | 2.36% |
| International fixed interest | 5.27% |
| Australasian equities | 12.04% |
| International equities | 13.54% |
| Listed property | 53.93% |
| Other* | 0.84% |

Target investment mix³

| | |
|------------------------------|-----|
| Cash and cash equivalents | 12% |
| New Zealand fixed interest | 3% |
| International fixed interest | 5% |
| Australasian equities | 12% |
| International equities | 13% |
| Listed property | 54% |
| Unlisted property | 0% |
| Commodities | 0% |
| Other* | 1% |

*'Other' comprises alternative securities (investment in total return and/or downside-orientated hedge funds)

What does the fund invest in? (continued)

Top 10 investments

| | Name | Percentage of fund net assets | Type | Country | Credit Rating |
|----|---------------------------------|-------------------------------|------------------------|--------------------------|---------------|
| 1 | Chorus | 5.14% | Australasian equities | New Zealand | |
| 2 | CaixaBank | 4.71% | International equities | Spain | |
| 3 | Metlifecare | 4.11% | Australasian equities | New Zealand | |
| 4 | Goodman Property Trust | 4.00% | Listed property | New Zealand | |
| 5 | American Homes 4 Rent | 3.93% | Listed property | United States of America | |
| 6 | Property For Industry | 3.84% | Listed property | New Zealand | |
| 7 | Kiwi Property Group Ltd | 3.80% | Listed property | New Zealand | |
| 8 | Vital Healthcare Property Trust | 3.60% | Listed property | New Zealand | |
| 9 | Precinct Properties New Zealand | 3.52% | Listed property | New Zealand | |
| 10 | Investore Property | 3.31% | Listed property | New Zealand | |

The top 10 investments make up 39.96% of the fund.⁴

NZ Funds actively manages the foreign currency exposure of the fund. Where the fund holds assets denominated in a foreign currency, NZ Funds has the choice of whether to hedge back to the NZ dollar or retain a foreign currency exposure. The fund may also take active foreign currency positions by holding non-NZD cash and/or foreign currency derivatives. As at 31 March 2018, the fund's foreign currency exposure was 22.05%.

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 | 9 years 1 month | Chief Operating Officer, New Zealand Funds Management Limited | 6 years 1 month |
| Michael Lang | Chief Investment Officer and a Director | 9 years 7 months | Partner, Eclectica Asset Management | 1 years 8 months |
| David Wilson | Investment Strategist and a Principal | 21 years 3 months | Chief Economist, JB Were | 3 years 5 months |
| Mark Brooks | Head of Income and a Principal | 10 years 4 months | Senior Portfolio Manager, Credaris | 3 years 4 months |
| Josh Wilson | Portfolio Manager | 6 years 10 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. 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 101.88% and 102.00% respectively. For more information on economic exposure, see the PDS.
3. 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.
4. 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