

**PERFORMANCE AND PORTFOLIO UPDATE
TO 31 May 2012**

1. Headline results

Returns to 31 May 2012

Please note that **Returns** are after fees but before NZ tax paid. We regard NZ tax paid as a return to the Crown.

Fund Size therefore reflects the since inception combination of:

Contributions + Returns – NZ tax paid

The two tables on this page show:

- the Fund's headline returns for the month, FYTD and since inception; and
- we have expressed in \$ how the size of the Fund has changed since inception and what has contributed to that change (in this table we also show current month and FYTD data).

FUND SIZE AT 31 May 2012	\$18.33bn		
Return (annualised since inception)	May 2012 (4.45)%	2011/12 FYTD (1.12%)	Since Inception 6.83%
Main factors influencing monthly return	Falling global equity markets.		

FUND SIZE SINCE INCEPTION COMPRISED AS FOLLOWS

OPENING FUND BALANCE AT 30 September 2003 (inception)	\$0		
	May 2012	2011/12 FYTD	Since Inception
Contributions received	\$0bn	\$0bn	\$14.88bn
Plus Returns after fees	(\$0.94bn)	(\$0.30bn)	\$5.79bn
Less Tax (Paid) / Received ¹	(\$0.04bn)	(\$0.41bn)	(\$2.32bn)
Other movements ²	\$0bn	(\$0.01bn)	(\$0.02bn)
CLOSING FUND BALANCE AT 31 MAY 2012	\$18.33bn		

¹ Tax 'received' covers any instances of refunds for overpayment of tax.

² Movements relate to transactions other than tax paid or returns e.g. tax expense, movements in reserves.

2. Monthly Fund returns³

The following table outlines the monthly Fund returns since inception (30 September 2003).

<i>Month to</i>	<i>Absolute Return (after fees but before tax)</i>	<i>Excess Relative to Treasury Bills</i>	<i>Size of Fund (NZD millions)</i>
2003/4 YEAR	7.69%	3.76%	\$3,985.4
2004/5 YEAR	14.13%	7.71%	\$6,613.5
2005/6 YEAR	19.20%	12.30%	\$10,108.7
2006/7 YEAR	14.58%	7.26%	\$13,149.5
2007/8 YEAR	(4.92%)	(12.89%)	\$14,128.4
2008/9 YEAR	(22.14%)	(27.63%)	\$13,352.6
2009/10 YEAR	15.45%	12.85%	\$15,625.2
2010/11 YEAR	25.05%	22.16%	\$19,032.5
July 2011	(2.81%)	(3.01%)	\$18,302.8
August 2011	(5.04%)	(5.27%)	\$17,356.2
September 2011	(3.67%)	(3.90%)	\$16,634.7
October 2011	6.66%	6.46%	\$17,798.8
November 2011	(0.54%)	(0.74%)	\$17,639.5
December 2011	0.43%	0.24%	\$17,728.6
January 2012	3.26%	3.07%	\$18,357.2
February 2012	3.72%	3.54%	\$19,059.3
March 2012	2.89%	2.71%	\$19,460.3
April 2012	(0.86%)	(1.07%)	\$19,228.7
May 2012	(4.45%)	(4.66%)	\$18,332.0
FYTD	(1.12%)	(3.38%)	\$18,332.0
<i>Since inception (30 September 2003) on an annualised basis</i>	6.83%	1.57%	\$18,332.0

³ Note that we use a time-weighted approach to measure returns. This method is appropriate for measuring our performance as it eliminates distortion of the returns caused by inflows and outflows of cash which are beyond our control – i.e. contributions and, later, withdrawals by the Government. The benchmarks against which we measure our performance are built on the same basis.

However this does mean it can be difficult to reconcile time-weighted return figures with the changes in the size of the Fund since inception. This is because under time-weighting the % performance of the Fund in the later stages of its life cycle – when it has more money under management – has more of an impact than % performance in the earlier part of the Fund's life when it had less money under management.

3. Economic exposures

For comprehensive information about how we allocate the Fund's capital please see [the How we Invest guide](#). In that document we discuss important concepts such as the Reference Portfolio and our Value-Adding activities.

This table is not a comprehensive assessment of how the Fund's capital is allocated. We provide that assessment annually in our Annual Report. Rather, this table is a simple list of the Fund's total economic exposure, in NZD, to each asset class at month end. Each asset class row combines physical and synthetic; and actively and passively managed exposures.

The table is intended to assist interested parties to understand the potential sources of movement in the size of the Fund. As a growth-oriented Fund there is a significant exposure to equities and any degree of change in equities markets will have an impact on the Fund. We note that as a long-term Fund, short-term fluctuations are of very limited relevance (other than the investment opportunities they may represent).

It is important to note that the exposures in the table are pre-Strategic Tilting. We have the ability to adjust – 'tilt' – the Fund's balance between growth and income assets, as well as the Fund's currency exposures. Tilting will therefore alter the Fund's economic and currency exposures and ultimately its risk levels. We do this only when we believe that the market's expectation of returns (as reflected in pricing at the time) is significantly different to our own expectations of what returns should be in the longer-term. The pay-off of this strategy is when the Fund captures the benefit of the movement of the market away from its short-term position, back toward a more 'normal' long-term position. In other words, we receive adequate compensation for the additional risk we have taken on.

As they are commercially sensitive, we do not disclose the size or nature of specific tilts (we summarise our tilting activity, and its returns, in each Annual Report). However, tilting decisions can involve tilting into and away from any combination of global and emerging market equities, global sovereign bonds, global investment grade credit, commodities, Real Estate Investment Trusts and foreign currencies.

The Fund's total **pre-tilt** economic exposures at 31 May 2012 were:

Economic exposures	Percentage of Fund Value
Global equities	58.7%
New Zealand equities	5.0%
Property	6.5%
Fixed Income	6.4%
Private Equity	2.0%
Infrastructure	9.6%
Timber	7.6%
Other Private Markets	3.6%
Rural Farmland	0.6%
TOTAL	100.0%

4. International and New Zealand Top 10 Holdings by Market Value

The Fund's 10 largest holdings in New Zealand and International listed equities* at 31 May 2012 were as follows:

	Value as at 31 May 2012 (NZD m)	Percentage of Fund Value
<u>New Zealand</u>		
Auckland International Airport	345.1	1.9%
Telecom Corp of New Zealand	127.4	0.7%
Fletcher Building	119.6	0.7%
Sky City Entertainment	69.0	0.4%
Contact Energy	68.6	0.4%
NZ Refining Company **	65.0	0.4%
Ryman Healthcare	39.3	0.2%
Chorus	35.2	0.2%
Sky Network Television	33.9	0.2%
Fisher & Paykel Healthcare	27.3	0.1%
<u>International</u>		
Transurban Group	313.5	1.7%
Norfolk Southern Corp	78.1	0.4%
Flughafen Zuerich (Zurich Airport)	50.0	0.3%
Simon Property Group	49.9	0.3%
Union Pac	46.3	0.3%
Copenhagen Airport	36.1	0.2%
Samsung Electronic	33.9	0.2%
Exxon Mobil Corp	28.0	0.2%
Sun Hung Kai	24.9	0.1%
Apple Inc	24.2	0.1%

*From 31 January 2010 we have changed the way we report these securities. Prior to that date the monthly reports contained the top 10 holdings aggregated only from our domestic and international equity mandates. The Fund holds equity securities in other mandates too, particularly Infrastructure, and the new format takes those securities into account. Where securities are held on more than one exchange or different security classes are held, holdings may not be consolidated. A full list of all the Fund's equity holdings is updated annually - see [the 2011 list](#).

**This represents our holdings in NZR comprising direct holdings and our 50% shareholding in Aotea Energy Holdings Limited – the ultimate holding company of Aotea Energy Limited.

5. Substantial Holdings

The following table shows those securities in which the Fund was a Substantial Security Holder (SSH) at 31 May 2012. The table shows the date the last SSH filing was made and the percentage holding as at the time of that filing.

File Date	Security Name	Percentage	Exchange
7-Nov-11	Metlifecare Ltd	7.46	NZ
28-Jan-10	Auckland International Airport	10.11	NZ
26-Mar-10	NZ Refining Company	17.34	NZ