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New Zealand Social Infrastructure Fund Limited

Report to Shareholders for the quarter ended 31 December 2010

14 March 2011

Dear Shareholders

The NZSIF interim report distributed in November 2010 was our last communication with you.

NZSIF invests as a limited partner in the Public Infrastructure Partners Limited Partnership (the PIP Fund/the Fund). The PIP Fund has made just the one investment to date, in the Melbourne Convention and Exhibition Centre (MCEC). However it is a significant investment in that it comprises 22.35% of our committed capital.

Although investment progress may seem slow this is the norm with long-term infrastructure investing, particularly where a typical public private partnerships (PPP) investment entails a build project. It is important to remember that the New Zealand market has only just been introduced to the PPP investment concept, so it is still early days. The PIP Fund's New Zealand investment activity will primarily be driven by Government infrastructure projects being rolled out over the next few years, with the first projects likely to be opened for market tenders this year. As a consequence, we anticipate that projects will come to market less frequently here than in Australia.

The final closing for the PIP Fund was completed on the 31st December 2010. The PIP Fund now has nine Limited Partners with commitments totalling \$176.5 million. With the introduction of further partners NZSIF's interest in the Fund was diluted to 22.95% from an original 28.8% stake (when there were commitments of \$140.5 million), and NZSIF is now the second largest investor behind the New Zealand Superannuation Fund.

Following the final close of the limited partnership, NZSIF received a pro-rata refund of the original capital contributions made to that date of \$2.2 million plus interest, as a result of funds introduced by the new investors to the Fund. This placed all PIP Fund partners on an equal footing going forward, and leaves NZSIF with a significant cash balance, which will reduce future calls on NZSIF investors.

Portfolio Companies Update

The PIP Fund completed its purchase of the Melbourne Convention and Exhibition Centre PPP ("MCEC") in the 4th quarter 2010.

The MCEC operated successfully during the quarter. Covenanted bank obligations were comfortably met and the project has run reliably. Under the PPP arrangement, the operator of the MCEC, Brookfield Multiplex bears the financial risk of payment deductions relating to any failure to meet defined operating standards, giving it a strong incentive to perform.

The MCEC board agreed upon distributions for the quarter ended December 2010. The distribution of AU\$402,000 was paid to the PIP Fund in January. Rather than pay this distribution through to the partners (including NZSIF) the PIP Fund is applying the proceeds towards its operating costs. This means there is no distribution to shareholders of NZSIF for the period ending 31 December 2010.

The proportion of the PIP Fund invested in the MCEC declined in the period to 31 December 2010. The decline in concentration is a result of bringing more investors into the PIP Fund. The expected reduction in concentration was one of the factors considered by the Advisory Committee when the MCEC investment was approved. The MCEC investment is now below the normal maximum concentration thresholds of the PIP Fund and represents a 22.35% concentration across asset, country and counterparty (Victorian Govt).

Financial Performance

The PIP Fund has only one investment, MCEC. Although it is operating and distributes net income quarterly it is unlikely that a large proportion of any investment returns will be distributed to NZSIF investors in the early years of the investment. Instead the earnings will be used to pay the PIP Fund's operating costs, including management fees which accrue on the whole value of the PIP Fund's committed capital.

Paying the PIP Fund's operating costs from investment yield reduces the need to draw down investment capital to fund expenses, preserving capital for more investment. The investment thesis for the Fund envisaged several years in which commitments were drawn down to pay fees and other expenses.

Investment Activity

In New Zealand, and Australia, the Manager continues to pursue appropriate opportunities for the PIP Fund. There are currently six investment possibilities being investigated, but none is certain or immediate. The more likely short-term investment prospects include opportunities in both New Zealand and Australia.

Valuations

The PIP Fund will engage an independent valuation expert to value the PIP Fund's assets once a year. The valuation will be as at the balance sheet date of 31 March. A newly purchased asset that has not been subject to a third party valuation or an asset in construction phase is held at cost. It is expected the MCEC investment will be subject to an independent valuation at 31 March 2011. This will then be reflected in NZSIF's annual accounts as at 31 March 2011.

Current Financial Position

At 31 December 2010 NZSIF held the following assets:

NZSIF portion of MCEC investment	*\$9,051,280	(PIP Fund \$39,445,706 @ 22.95%)
NZSIF portion of PIP Cash	\$117,464	(PIP Fund \$511,828 @ 22.95%)
NZSIF Cash as at 11-3-11	<u>\$2,491,841</u>	
Total NZSIF assets	\$11,660,585	
NZSIF value per unit	28.44 cps	
Last sale price	30.00 cps	

* Between the purchase date and the 31 December reporting date the Australian dollar strengthened against the New Zealand dollar. The increase in the value of the MCEC asset is solely due to this exchange rate movement. *Assumed exchange rate 31-December 2010: 0.76372*

Outlook for Distributions

Infrastructure investing has a longer-term investment horizon so distributions from infrastructure investments, particularly development projects naturally take some time to generate and flow through to investors. The situation can be different where we invest in an existing operating concession such as the MCEC with an initial yield of approximately 4%. Although we did not expect to see distributions in the early stage of the Fund the fact that our first investment through the PIP Fund was an operating concession, the MCEC, has meant the PIP Fund derives a regular quarterly income from this investment. As explained above the PIP Fund will retain this income stream and apply this towards operating costs over the short-term, which will delay the need for the PIP Fund to make a further call on partners, and NZSIF to make a call on NZSIF investors.

We will keep you informed as investments are made by the PIP Fund through media releases, via the NZSIF website www.nzsif.co.nz or by writing directly to you. Any new investments made by the PIP Fund will entail a call being made on NZSIF to fund the investment. In turn we will issue a call notice and information on the new investment to you. We anticipate issuing an annual report to you towards the end of the second quarter 2011.

If you have any queries regarding your investment in NZSIF, please discuss with your Investment Advisor or you may call Peter Lalor at NZSIF Management on 07 5774 727.

Yours sincerely

NEW ZEALAND SOCIAL INFRASTRUCTURE FUND LIMITED

A handwritten signature in black ink, appearing to be 'Kim Ellis', written in a cursive style.

Kim Ellis
Chairman