

# Public Trust Investment Funds *Fund Performance*

Investor update 30 September 2011

## Market briefing

# A shift to thrift

The “wall of worry” we referred to in our previous quarter’s commentary grew even taller this quarter and as a result sharemarkets performed very poorly causing diversified portfolios to experience negative returns for the period.

The factors behind the weakening investment environment were ones we have become familiar with over the past few quarters. Mainly, further deterioration in the outlook for global growth, driven by the US and Europe, and the deepening of the European sovereign debt crisis.

It is becoming increasingly clear that despite massive government stimulus to the major world economies and extremely low interest rates, consumers and businesses are not responding sufficiently to reduce unemployment. Lack of confidence is leading people to reduce debt faster rather than spend the savings from lower interest rates. This is creating a classic “paradox of thrift” situation where increased savings by individuals

leads to less spending which in turn leads to less jobs, lower incomes, then finally lower savings for all. This is a difficult downward spiral to break and presents a significant risk to global growth.

Lack of confidence of households and businesses around the world is not surprising when we consider the response of the US and European governments to the debt challenges. In the US, political bickering threatened to cause an unprecedented default on its debt obligations and resulted in the lowering of America’s hallowed AAA credit rating. Similar dysfunctional politics in Europe threatened to spread the solvency issues of Greece to other countries, notably Italy, and the questioning of the solvency of many European banks. By quarter end markets were deeply pessimistic.

Here in New Zealand we were able to avoid early stages of the market meltdown as investors felt New Zealand would benefit from the boom

of agricultural commodity prices plus the Christchurch rebuild. This early optimism saw the NZ dollar hit a new record high since our currency was floated of 0.88 against the US dollar. But as the global outlook continued to deteriorate the headwinds proved too hard to ignore and a combination of falling commodity prices and a downgrade to New Zealand’s own credit rating saw the NZ dollar more than 10c lower by quarter end. In line with the worsening outlook the Reserve Bank moderated its expectations for a rise in the Official Cash Rate, with a move now unlikely before the start of 2012.

The strong message emerging from financial markets is that actions to tackle threats to global growth and sovereign solvency have been inadequate. A more aggressive and coordinated policy response is required. Only then will we begin to see a return to more positively performing sharemarkets.

## Market returns at a glance

Sector	Quarter (to 30 Sep-11)	Year (to 30 Sep-11)
New Zealand Shares	-2.4%	6.9%
International Shares*	-8.9%	-7.0%
New Zealand Listed Property	1.6%	15.6%
New Zealand Bonds	3.5%	7.8%
International Bonds**	4.7%	5.3%
Cash	0.7%	3.0%
NZD	-8.3%	3.1%

\* In New Zealand Dollars \*\* Hedged to New Zealand Dollars



Colin Thomson is Public Trust’s Head of Investments and has over twenty years’ experience in financial markets. Public Trust is responsible for the management of over \$1.2 billion of investments, including Public Trust Investment Funds.

# Funds at a glance

for the period ending 30 September 2011

Fund	Fund Size \$M	Unit Prices*		Performance**			Asset Allocations
		Application Price	Withdrawal Price	Last year	Last 2 years	Last 3 years	
Defensive Fund	19.1	1.3511	1.3343	3.8%	4.7%	5.5%	<ul style="list-style-type: none"> <li>NZ Bonds 42%</li> <li>NZ Cash 39%</li> <li>International Shares 11%</li> <li>NZ Shares 5%</li> <li>NZ Listed Property 3%</li> </ul>
Conservative Fund	16.1	1.2803	1.2643	2.3%	3.7%	4.5%	<ul style="list-style-type: none"> <li>NZ Bonds 32%</li> <li>NZ Cash 30%</li> <li>International Shares 23%</li> <li>NZ Shares 10%</li> <li>NZ Listed Property 5%</li> </ul>
Moderate Growth Fund	8.3	1.2384	1.2230	1.1%	2.7%	4.2%	<ul style="list-style-type: none"> <li>International Shares 30%</li> <li>NZ Cash 26%</li> <li>NZ Bonds 19%</li> <li>NZ Shares 12%</li> <li>International Bonds 7%</li> <li>NZ Listed Property 6%</li> </ul>
Balanced Growth Fund	11.8	1.2051	1.1901	0.4%	2.3%	3.5%	<ul style="list-style-type: none"> <li>International Shares 36%</li> <li>NZ Cash 21%</li> <li>NZ Shares 15%</li> <li>NZ Bonds 15%</li> <li>NZ Listed Property 7%</li> <li>International Bonds 6%</li> </ul>
Growth Priority Fund	8.4	1.1741	1.1595	-0.9%	1.4%	2.6%	<ul style="list-style-type: none"> <li>International Shares 48%</li> <li>NZ Shares 21%</li> <li>NZ Cash 10%</li> <li>NZ Listed Property 10%</li> <li>NZ Bonds 8%</li> <li>International Bonds 3%</li> </ul>
Balanced Fund	4.8	1.4258	1.4080	1.6%	3.3%	4.9%	<ul style="list-style-type: none"> <li>International Shares 30%</li> <li>NZ Bonds 30%</li> <li>NZ Shares 13%</li> <li>International Bonds 11%</li> <li>NZ Cash 10%</li> <li>NZ Listed Property 6%</li> </ul>
Capital Growth Fund	3.6	1.3778	1.3606	-0.1%	2.0%	3.4%	<ul style="list-style-type: none"> <li>International Shares 42%</li> <li>NZ Shares 18%</li> <li>NZ Bonds 15%</li> <li>NZ Cash 10%</li> <li>NZ Listed Property 9%</li> <li>International Bonds 6%</li> </ul>
Cash Management Fund	30.9	1.1646	1.1646	2.5%	2.5%	3.0%	<ul style="list-style-type: none"> <li>Bank 71%</li> <li>Asset Backed Securities 18%</li> <li>Corporate 7%</li> <li>Local Authority 4%</li> </ul>
NZ Bond Fund	3.3	1.5566	1.5372	7.5%	8.5%	8.7%	<ul style="list-style-type: none"> <li>Government Stock 45%</li> <li>Bank 31%</li> <li>Corporate 16%</li> <li>Local Authority 8%</li> </ul>

\* Application Unit Prices and Withdrawal Unit Prices are as at 30 September 2011. \*\* Performance returns are shown as annualised rates of return. The returns assume a lump sum invested at the beginning of the period with no subsequent contributions or withdrawals. Returns will vary over time and are dependent on market conditions and the performance of the individual asset allocations in each Fund.

# Top 10 holdings at a glance as at 30 September 2011

The tables below show the top 10 companies or countries and their weighting as a percentage of the value of each sector.

## International Shares\*

Company	Weighting
Exxon Mobil	1.7%
Apple	1.6%
Nestle	1.0%
IBM	1.0%
Microsoft	1.0%
Chevron	0.8%
Johnson & Johnson	0.7%
Procter & Gamble	0.7%
General Electric	0.7%
AT & T	0.7%

## International Bonds\*

Country	Weighting
Japan	32.8%
United States	27.2%
France	6.8%
Germany	6.5%
Italy	6.1%
United Kingdom	5.5%
Spain	2.9%
Canada	2.0%
Belgium	1.9%
Netherlands	1.7%

## NZ Shares

Company	Weighting
Fletcher Building Limited	13.3%
Telecom Corp Of New Zealand	12.9%
Contact Energy Limited	9.9%
Auckland International Airport Limited	8.1%
Sky City Entertainment Group	5.6%
Sky Network Television Limited	5.3%
Ryman Healthcare Limited	3.6%
Fisher & Paykel Healthcare Corporation Limited	3.6%
Infratil Limited	3.0%
Kiwi Income Property Trust	2.7%

## NZ Listed Property

Company	Weighting
Kiwi Income Property Trust	29.3%
Goodman Property Trust	19.5%
AMP NZ Office Limited	19.0%
Argosy Property Trust	10.4%
Vital Healthcare Property Trust	8.5%
Property For Industry Limited	6.3%
NPT Limited	2.4%
DNZ Property Fund Limited	2.1%
Kermadec Property Fund Limited	1.5%
CDL Investments New Zealand Limited	1.1%

## NZ Bonds

Company	Weighting
Government Stock	45.1%
BNZ	10.5%
Fonterra	5.8%
Rabobank	5.8%
Auckland City Council	5.8%
ANZ	5.1%
ASB Bank	4.9%
Queensland Treasury Corporation	4.4%
Westpac	3.7%
Powerco	1.9%

## NZ Cash

Company	Weighting
ANZ	19.4%
Westpac	19.4%
Kiwibank	19.0%
BNZ	12.9%
Retail Financial Services (RFS Trust 2006-1)	9.1%
Marac (ABCP Trust 1)	9.1%
Western Bay Of Plenty District Council	3.7%
Fonterra	3.6%
Transpower	1.8%
Vector	1.7%

\* Securities held by third party managers of international assets.

# What are the tax advantages of the *Public Trust Investment Funds?*



As the Public Trust Investment Funds are Portfolio Investment Entities (PIE) they offer a range of tax advantages...

- where a fund invests in New Zealand, and most Australian listed companies, gains on the sale of shares are not subject to tax
- your share of taxable investment income is taxed at your Prescribed Investor Rate (PIR) – capped at 28%
- in the event the fund makes a tax loss, you are either attributed your share of this loss to offset against your other income or you can receive a refund from the Inland Revenue (IRD) for your share of this loss based on your PIR
- PIE income is taxed at favourable rates. For example, the 17.5% tax rate on income up to \$48,000 extends up to \$70,000 when PIE tax and taxable income are combined\*.

\*To qualify for the 17.5 % tax rate your taxable income must be \$48,000 or less in one of the last two income years. Further information on PIRs can be found on the IRD website [www.ird.govt.nz/toii/pir](http://www.ird.govt.nz/toii/pir).

## Remember...

Tax law is complex and changes frequently. The information provided is not intended as tax advice and is based on our understanding of law that is current at the date of this publication. You should seek tax advice specific to your own situation.

## Is now the *right time* to invest?

As we have commented this quarter, sharemarkets have performed very poorly causing diversified portfolios to experience negative returns for the period – so, is now the right time to invest?

Risk exists with all investments. For example, inflation and default risks can affect income assets, while volatility of prices and values can affect growth assets. The role of a good investment strategy is not to avoid these risks entirely, as this is considered unattainable, but to acknowledge them and manage them accordingly.

Diversification is very important to the success of long-term investments. It means not only investing in different asset classes such as cash, bonds (fixed interest), shares (equities) and property, but countries, regions and industries as well.

At any point, individual companies and industries will perform differently under the same market conditions. It's not possible to reliably predict how and when they will perform. Diversification reduces the risk of a particular company, industry, sector or country not performing well.

So, is now the right time to invest? If your investment objective is short term, then term deposits may be the best solution. If you're investing for the medium to long term at a time when markets are performing poorly, then the risk of being "out of the market" is likely to outweigh the negative periods of market volatility.

This newsletter has been prepared to update investors about the performance of their investments.

It provides general information only and is not a substitute for professional advice in any particular circumstances.

Whilst we take care to ensure the accuracy of statements in our publications, we cannot guarantee the accuracy of any part of this newsletter and neither Public Trust, nor its board members or officers, will be liable to any person for any loss or damage whatsoever, including indirect loss, arising from any person's reliance on information contained in this newsletter. Further information about Public Trust Investment Funds is contained in the Investment Statement, a copy of which is available from Public Trust.

A Public Trust adviser's disclosure statement is available, on request and free of charge.

### *Important information about the Public Trust Investment Funds and their performance*

- On 1 October 2007, all Funds elected to operate as Portfolio Investment Entities (PIEs), where individual investors have income allocated to them and taxed on their behalf at their Prescribed Investor Rate (PIR) capped at 28%.
- All Fund performance figures exclude entry fees. Performance has been calculated before deduction of tax and after deduction of management fees.
- Returns reflect past performance and do not indicate future performance.
- No particular level of return is promised. None of Public Trust, the Government of New Zealand, the Statutory Supervisor, or any other person guarantees the repayment of any investment in the Funds, the performance of the Funds, or any particular rate of return. The value of an investment in any of the Public Trust Investment Funds can decrease, as well as increase.
- Unit prices are as at 30 September 2011. The withdrawal unit price is a gross price, before allowing for any PIE tax applicable to individual investors.
- The Balanced Fund and the Capital Growth Fund are currently closed to new Investors.