



Public Trust Investment Service.

Diversified Funds
Quarterly Update
31 December 2018

Funds Update

What is the purpose of this update?

This document tells you how the Public Trust Investment Service Diversified Funds have performed and what fees were charged.

The document will help you to compare the Funds (the Funds) with other funds. Public Trust has not prepared this update in accordance with the Financial Markets Conduct Act.

The Financial Markets Conduct Act 2013, the Securities Act 1978 and the Securities Regulations 2009 do not apply to this offer.

This information is not audited and may be updated.

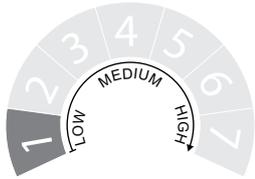
The Funds referred to in this Quarterly Update are used by Public Trust as investment options where it is acting as trustee or co-trustee of an estate or trust, or as property attorney or property manager for a non-consultable customer.

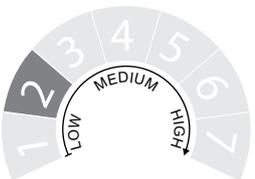
The Funds are not open to members of the public.

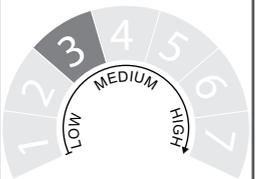
Any reference to us, we or our, refers to Public Trust.

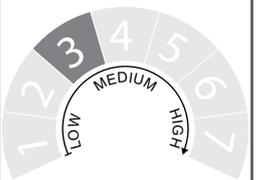
Description of the funds

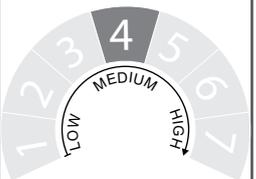
There are seven options offered in the Public Trust Investment Service Diversified Funds. The Funds referred to in this Quarterly Update are used by Public Trust as investment options where it is acting as trustee or co-trustee of an estate or trust, or as property attorney or property manager for a non-consultable customer. The Funds are not open to members of the public. These options are summarised below.

Cash Fund	
Aims to produce low risk returns by investing in short-term bank deposits and fixed interest securities.	 Risk indicator
Management fee	0.40% of your balance each year
Third party management fees	Nil
Entry/exit spread	Nil
Total value of the Fund	\$15.7m
Unit price (redemption)	1.0643
Fund start date	28 July 2014

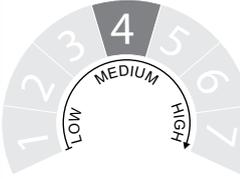
Defensive Fund	
Aims to produce stable returns with low capital growth and low risk over the medium-term by investing 80% in diversified income assets (cash and bonds) and 20% in diversified growth assets (shares and listed property).	 Risk indicator
Management fee	1.05% of your balance each year
Third party management fees	0.02% of your balance each year
Entry/exit spread	+/- 0.13%
Total value of the Fund	\$144.6m
Unit price (redemption)	1.1307
Fund start date	28 July 2014

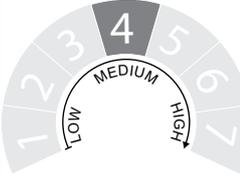
Conservative Portfolio	
Aims to produce stable returns with some capital growth and low to medium risk over the medium-term by investing 62.5% in the Defensive Fund and 37.5% in the Balanced Fund.	 Risk indicator
Management fee	1.11% of your balance each year
Third party management fees	0.03% of your balance each year
Entry/exit spread	+/- 0.18%
Portfolio start date	28 July 2014

Moderate Portfolio	
Aims to produce moderate capital growth with moderate risk over the medium-term by investing 25% in the Defensive Fund and 75% in the Balanced Fund.	 Risk indicator
Management fee	1.16% of your balance each year
Third party management fees	0.04% of your balance each year
Entry/exit spread	+/- 0.23%
Portfolio start date	28 July 2014

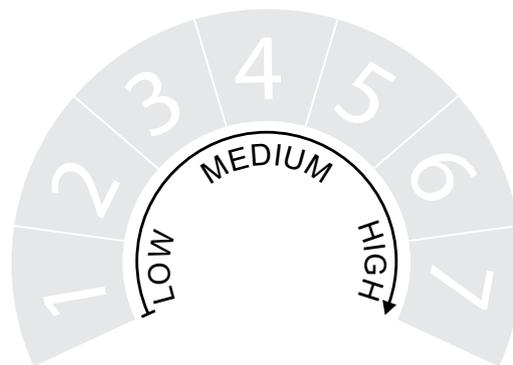
Balanced Fund	
Aims to produce long-term capital growth with medium levels of risk by investing 60% in diversified growth assets (shares and listed property) and 40% in diversified income assets (cash and bonds).	 Risk indicator
Management fee	1.20% of your balance each year
Third party management fees	0.05% of your balance each year
Entry/exit spread	+/- 0.26%
Total value of the Fund	\$230.5m
Unit price (redemption)	1.2249
Fund start date	24 July 2014

What are the risks of investing?

Balanced Growth Portfolio	
Aims to provide significant long-term capital growth with medium to high levels of risk by investing 50% in the Balanced Fund and 50% in the Growth Fund.	 <p>Risk indicator</p>
Management fee	1.20% of your balance each year
Third party management fees	0.06% of your balance each year
Entry/exit spread	+/- 0.29%
Portfolio start date	28 July 2014

Growth Fund	
Aims to produce high long-term capital growth by investing 80% in diversified growth assets (shares and listed property) and 20% in diversified income assets (cash and bonds).	 <p>Risk indicator</p>
Management fee	1.25% of your balance each year
Third party management fees	0.08% of your balance each year
Entry/exit spread	+/- 0.32%
Total value of the Fund	\$23.1m
Unit price (redemption)	1.2423
Fund start date	28 July 2014

Risk Indicator



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

Note that even the lowest category does not mean a risk-free investment.

The risk indicator is not a guarantee of a Fund's future performance. Because the Funds are relatively new it is not possible to base the risk indicator on long-term actual performance. Instead the risk indicator is based on historical fund performance for similar funds managed by Public Trust for the five years ended 30 April 2014. While risk indicators are usually relatively stable, they do shift from time to time.

See the Information Statement for more information about the risks associated with investing in these funds.

Important note

None of Public Trust, the Government of New Zealand or any other person guarantees the repayment of any investment in the Funds or the performance of the Funds.

What are the fees?

You will be charged fees for investing in the Public Trust Investment Service Diversified Funds. Fees are deducted from your investment and will reduce your returns. If Public Trust invests in other funds, those funds may charge fees also. The total fee you pay is made up of two main types of fees:

- Management fees. These fees are expressed below as a percentage of your balance each year.
- Entry/exit spread. These are one-off fees charged for investing or withdrawing from a Fund.

Management fees

Option	Public Trust management fee	Third party management fee
Cash Fund	0.40%	Nil
Defensive Fund	1.05%	0.02%
Conservative Portfolio	1.11%	0.03%
Moderate Portfolio	1.16%	0.04%
Balanced Fund	1.20%	0.05%
Balanced Growth Portfolio	1.20%	0.06%
Growth Fund	1.25%	0.08%

Third party management fees are calculated on the value of each Fund's investment in funds offered by the sub-contracted investment manager appointed to manage international shares. These fees are calculated and deducted daily from the third party funds in which these Funds invest.

Management fee rebate

Accounts with larger amounts invested qualify for a rebate of part of Public Trust's management fee, as outlined in the table below:

Amount Invested	Rebate
On the first \$500,000	0.00%
On the next \$500,000	0.40%
On the next \$1,000,000 plus	0.80%

The rebates are calculated daily and applied quarterly to your account held with Public Trust.

Entry/exit spread

Transaction costs are incurred by a Fund when buying and selling investments. In order to help the Funds recover these expenses when investors enter or exit the Funds, an adjustment is made to the calculation of the Funds' entry and exit unit prices. This is known as an entry/exit spread. The entry/exit spread applicable to each investment option is outlined in the table below.

Option	Application price plus:	Withdrawal price less:
Cash Fund	Nil	Nil
Defensive Fund	0.13%	0.13%
Conservative Portfolio	0.18%	0.18%
Moderate Portfolio	0.23%	0.23%
Balanced Fund	0.26%	0.26%
Balanced Growth Portfolio	0.29%	0.29%
Growth Fund	0.32%	0.32%

The fee is not charged in the Fund itself, but is based on the buy/sell spread of the wholesale funds in which it invests.

As transaction costs may change, the entry/exit spread may also change without prior notice. The income earned by the entry/exit spread goes towards the Fund's transaction costs and is not paid to Public Trust.

Certain administration expenses may be charged to the Funds where they are necessary in exercising our powers, as permitted under the Trust Deed. These include, but are not limited to, audit, legal and specialist investment advice. These expenses are not fixed and cannot be completely known ahead of time, but are not expected to be material.

Public Trust does not charge entry or exit fees (excluding the entry/exit spread), establishment fees, termination fees or any other fees or charges unless disclosed in the Information Statement.

Market Update

Markets at a glance

	Returns	
	Quarter	Year
International shares*	-13.7%	19.7%
NZ shares	-5.6%	6.0%
Australian shares*	-11.7%	-7.2%
NZ listed property	-5.3%	6.4%

* In NZ Dollar terms

	Returns	
	Quarter	Year
NZ bonds	1.5%	4.6%
Cash	0.5%	2.0%
NZ Dollar**	1.9%	-1.1%

** In trade weighted index terms

Commentary

The fourth quarter was challenging for global equity markets as investors' fears of slowing global growth, growing geopolitical and trade tension, monetary tightening and weaker economic growth in China caused them to sell equities and move into more defensive asset classes e.g government bonds. Returns for all of the major equity markets were negative for the fourth quarter and for calendar 2018. The New Zealand equity market was one of the best performing equity markets returning 6% for calendar 2018. The New Zealand listed property sector performed strongly with a return of 2% in the quarter and a 9% return for the year making it the best performing market.

Global Equities

The fourth quarter was challenging for global equity markets as they experienced their second correction in 2018 after reaching all time highs in late September. The fall in the major equity markets in the fourth quarter erased all of the gains made earlier in the year with all major equity indices recording negative returns for calendar 2018. The MSCI All Country World index declined 12.5% in the fourth quarter and fell 7.4% in local currency terms in 2018. In New Zealand dollar terms the MSCI All Country World index declined 13.7% in the fourth quarter and fell 3.9% in 2018

Comments by the Federal Reserve chairman, Jerome Powell, in early October, that US interest rates were "a long way" from neutral caused US government bond yields to rise. Equity investors became concerned that US interest rates may rise faster than expected and sold equities. In October, the US equity market recorded one of its worst months since 2011. US and other major equity markets rallied for a brief period in early November. However, concerns about: growing trade tension (US and China), weaker economic growth in China, slowing global economic growth, monetary tightening (in the US and Europe) and rising geopolitical concerns (Brexit, Italian politics, protests in France) resurfaced in mid November and investors sold equities and moved into more defensive assets classes. Selling intensified in December with S&P500 falling 9% its worst December monthly decline since 1931 due to fears of declining economic momentum and slower earnings growth.

The US has been the economic engine driving global growth. Third quarter annual growth in real GDP was 3.5% and is expected to moderate going forward as the benefits of the tax cuts announced in 2017 fade. The Federal Reserve raised interest rates again in December due to continued stable US economic data. The labour market in the US remains very strong with unemployment at a 49 year low. The Federal Reserve has adopted a more dovish tone signalling a more cautious view on interest rate increases going forward and this has alleviated some of the market participants concerns.

In Europe business surveys have been weak in part driven by the decline in the manufacturing sector's new orders reflecting a slow down in demand from China. Economic growth in China has slowed but growth remains positive. China is seeking to stimulate the economy with a combination of monetary and fiscal measures.

New Zealand

The New Zealand equity market followed the global trend and declined by 5.6% in the fourth quarter. Merger and acquisition activity and positive news flow from the property sector provided support for the market and made it one of the best performing markets during the quarter. For the year the New Zealand equity market returned 6% making it one of the best performing markets globally in 2018.

The New Zealand listed property sector performed strongly with a return of 2% in the quarter and a 9% return for year making it the best performing market globally. Positive news flows including revaluation uplifts, increased dividends and assets sold above book value were the primary reason for the strong performance of the New Zealand list property sector.

Third quarter GDP figures showed that the New Zealand economy grew at an annual rate of 2.6%. It is expected that economic growth in New Zealand will range between 2 1/2 - 3% over next couple of years. Inflation for the fourth quarter, at 0.1%, was above market expectations with non-tradeable inflation surprising on the upside. There is no evidence to suggest that the Reserve Bank of New Zealand will need to urgently change its monetary policy setting in the near future.

The New Zealand economy is undergoing a transition as the previous engines of growth are facing headwind. Interest rates are expected to remain low and should support economic growth which is expected to be positive but below the strong level seen in the last few years.

Outlook

As the US and other major economies continue to move further into the advanced stages of the business cycle we expect central banks to continue to assess whether interest rates need to rise or end quantitative easing. Financial markets are moving away from an environment where there was ample, consistent and predictable liquidity (quantitative easing) towards an environment where economic and corporate fundamentals will have a significantly greater influence on the direction of markets (quantitative tightening). This transition is unlikely to be smooth. This coupled with geopolitical fears (Brexit), trade wars, and concerns about Chinese and global economic growth will ensure that financial market volatility will increase from the benign levels we have seen over the last few years. As always, taking a long term view, while maintaining a well-diversified portfolio of investment offers the best long term prospects for building wealth.

How have the Funds performed?

	Past Quarter	1 Year	Annualised since inception
Cash Fund	0.58%	2.43%	2.53%
Defensive Fund	-1.10%	2.22%	4.28%
Conservative Portfolio	-2.68%	1.43%	4.91%
Moderate Portfolio	-4.27%	0.64%	5.53%
Balanced Fund	-5.32%	0.11%	5.95%
Balanced Growth Portfolio	-6.45%	-0.55%	6.15%
Growth Fund	-7.57%	-1.22%	6.35%

Commentary on performance

Fund returns for the quarter were down on the previous quarter. This reflected a difficult quarter for global equities. Global equities declined on persistent concerns over global trade and slowing economic growth. The funds that had the greatest exposure to both equities (domestic and global) performed the worst during the quarter. Despite the weak quarter the performance of the Funds since inception are above the long-term expected levels.

The growth of \$10,000 invested in each of the Funds since inception is shown in the chart below. It is notable that since inception the diversified funds have significantly outperformed the cash fund.

Note on returns

They also assume that distributions are reinvested. Fund returns are after deductions for charges, but before tax. Important: Returns reflect past performance and do not indicate future performance.

Growth of a \$10,000 investment

Value of the investment

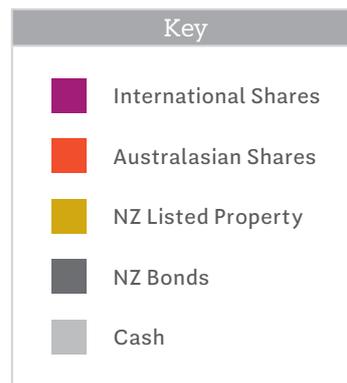
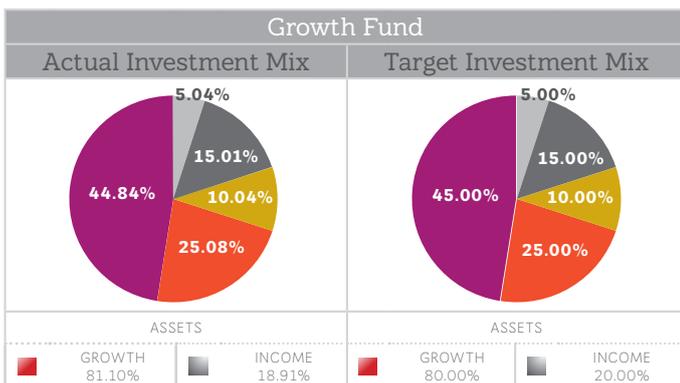
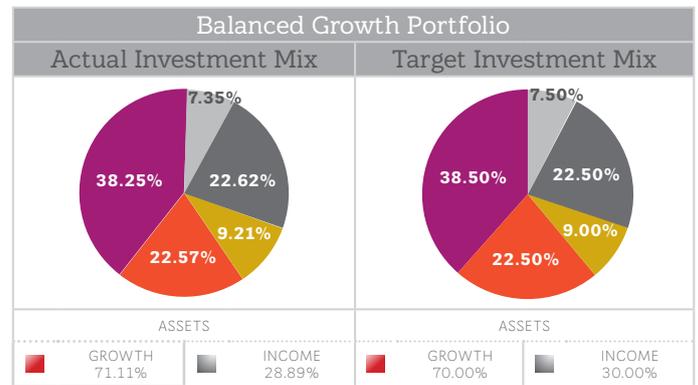
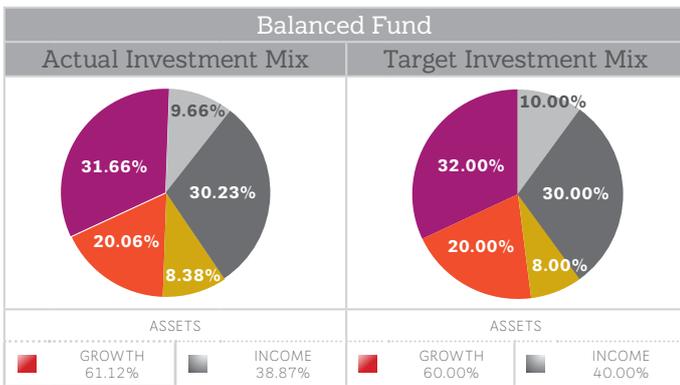
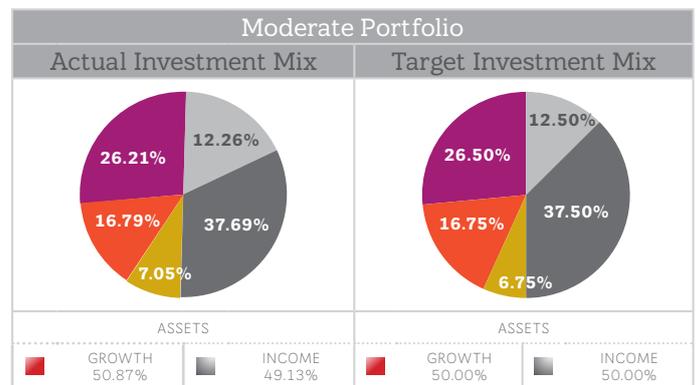
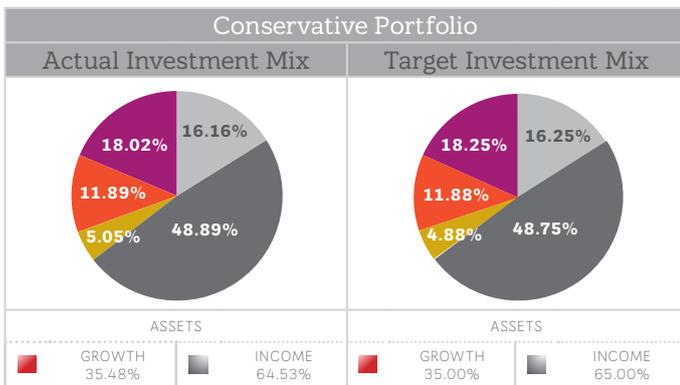
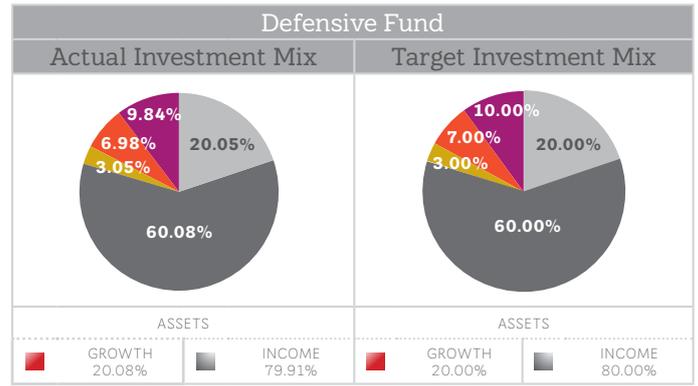
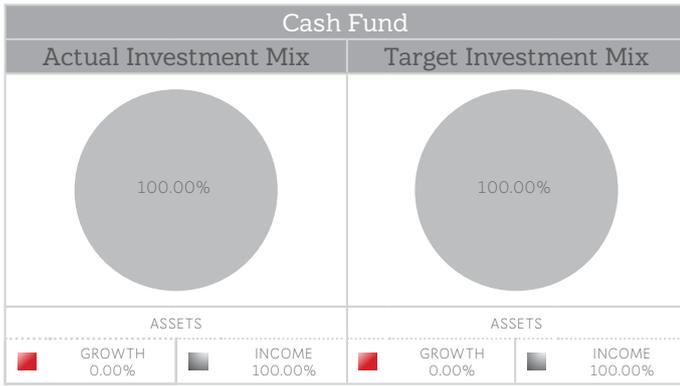


Assumes standard management fees, reinvestment of distributions and zero tax rate.

Inception date for the Balanced Fund is 24 July 2014. For all other Funds it is 28 July 2014.

Further information may be found in the document "Public Trust Investment Service Investment Beliefs and Strategy" on our web site: www.publictrust.co.nz.

What do the Funds invest in?



Top 10 holdings

GROWTH ASSETS

INTERNATIONAL SHARES		
COMPANY	COUNTRY	WEIGHTING
Apple Inc.	United States	1.96%
Microsoft Corp.	United States	1.91%
Alphabet Inc Class A&C	United States	1.65%
Amazon.com Inc.	United States	1.61%
Johnson & Johnson	United States	0.89%
JPMorgan Chase & Co.	United States	0.85%
Facebook Inc.	United States	0.82%
Exxon Mobil Corp.	United States	0.75%
Berkshire Hathaway Inc.	United States	0.69%
Pfizer Inc.	United States	0.67%
TOTAL		11.79%

AUSTRALASIAN SHARES		
COMPANY	COUNTRY	WEIGHTING
a2 Milk Co	New Zealand	6.50%
Spark New Zealand	New Zealand	6.18%
Fisher & Paykel Healthcare Corp.	New Zealand	6.02%
Auckland Intl Airport	New Zealand	5.43%
Ryman Healthcare Group	New Zealand	3.67%
Meridian Energy	New Zealand	3.46%
Contact Energy	New Zealand	3.43%
Fletcher Building	New Zealand	3.36%
Mainfreight Limited	New Zealand	2.10%
Trade Me Ltd	New Zealand	2.02%
TOTAL		42.17%

NZ LISTED PROPERTY		
COMPANY	FUND	BENCH-MARK
Goodman Property Trust	13.93%	17.86%
Stride Stapled Group	15.41%	9.23%
Precinct Properties NZ	15.33%	17.19%
Property for Industry	14.06%	12.03%
Argosy Property	15.04%	12.02%
Kiwi Property Group	13.27%	17.60%
Vital Healthcare Property Trust	12.36%	9.82%
TOTAL	99.40%	100.00%

INCOME ASSETS

NZ CASH		
ISSUER	CREDIT	WEIGHTING
BNZ	A+	20.23%
Westpac	A+	17.07%
ANZ National	A+	15.99%
Kiwibank	A	12.77%
ASB	A+	7.66%
Bank of China	A+	4.27%
Industrial and Commercial Bank of China	A	4.26%
HSBC	AA-	4.25%
Toyota Finance	AA-	2.65%
Fonterra	A-	2.65%
TOTAL		91.80%

NZ BONDS		
ISSUER	CREDIT	WEIGHTING
New Zealand (Government)	AA+	34.44%
New Zealand (Local Government Funding Agency)	AA+	18.11%
Bank of New Zealand	AAA	5.91%
ANZ Bank	A+	5.81%
Westpac	AA	3.96%
ASB Bank	A+	3.56%
Auckland, Regional Council of	A+	3.40%
Fonterra	AA-	2.22%
Auckland International Airport	A-	2.18%
Chorus Ltd	A-	1.75%
TOTAL		81.34%

Key personnel

Position	Investment Committee Chair	Chief Executive	Head of Investments
Name	Fiona Oliver	Bob Smith	Theresa Egan
Time in position	4 years 5 months	5 years	1 Year 2 months
Previous Position	Committee member	Consultant to the Chief Executive	Investment Manager
Time in previous position	4 years 10 months	12 months	5 years
Employer	Public Trust Board member	Public Trust	Te Tuma Paeroa

Where you can find more information

Further information about the funds is contained in the Public Trust Investment Service Diversified Funds Information Statement dated 1 January 2019, a copy of which is available on request to Public Trust.

Contact information

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