



# Public Trust Investment Service.

Diversified Funds  
Investment Beliefs and Strategy  
1 July 2019

## Introduction

The Public Trust Investment Service Diversified Funds invest in assets such as shares, bonds and cash. They do this by purchasing units in other Funds that Public Trust manages. Each of these Funds invests in a single asset class, for example global shares.

The purpose of this document is to give investors in the Public Trust Investment Service Diversified Funds further information on Public Trust's investment beliefs and strategy for each of the individual asset class Funds in which their diversified Fund invests.

The Funds referred to in this document are used by Public Trust as part of investment options in situations where it is acting as trustee, co-trustee or attorney of an estate,

trust or non-consultable agency. The Funds are not open to members of the public or to investors directly.

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

**Further information:** If you have any questions please contact your adviser or alternatively our Customer Contact Centre: telephone - 0800 371 471 or email - [info@publictrust.co.nz](mailto:info@publictrust.co.nz).



# Our investment beliefs

The Public Trust Investment Service (PTIS) investment beliefs are intended to provide a basis for strategic management of the investment portfolio.

The investment beliefs are not a checklist to be applied to every decision. They are a guide for making decisions that often require balancing multiple, inter-related factors.

- **Investment Belief 1**

Portfolio management should be focused on the objectives and risk definitions of the customer.

- **Investment Belief 2**

An effective governance and decision-making structure adds value to PTIS portfolios.

- **Investment Belief 3**

Strategic asset allocation is the dominant determinant of portfolio risk and return. A strategic long-term asset allocation is likely to outperform an active short-term approach.

- **Investment Belief 4**

Risk and return are inter-related – higher returns are only achievable through increased risk. Risk is therefore carefully considered and a variety of both qualitative and quantitative risk measures are used.

- **Investment Belief 5**

Investment markets are competitive and dynamic, with active returns very difficult to find and constantly changing source. PTIS will therefore only take active risk where we have a strong belief we will be rewarded for it.

- **Investment Belief 6**

Both the capital and income component of total return are relevant.

- **Investment Belief 7**

Perpetual charitable trusts investment horizon enables PTIS to invest in illiquid assets, provided an appropriate premium is earned for the illiquidity premium.

- **Investment Belief 8**

Costs and taxes matter and need to be effectively managed.

- **Investment Belief 9**

The investment programme will consider all relevant factors which may impact risk and reward including environmental, social and governance (ESG) factors. Any ESG exclusion policies will be determined in consultation with particular trusts.

# Global Share Fund

## Fund Profile

The Public Trust Global Share Fund invests across a wide range of global share markets – not just those in developed countries. This increases the Fund's exposure to faster growing emerging economies which offer potential for higher returns in the longer-term.

The fund adopts an environmental, social and governance (ESG) overlay when investing in developed markets. In particular in developed markets it does not invest in companies that produce tobacco, controversial weapons or nuclear weapons.

## Fund Strategy

Vanguard invests using an index methodology based on capitalisation (price) weighted benchmarks. The Fund invests 65% in the Vanguard International Shares Select Exclusions Index Fund hedged to NZ dollars, 25% in the Vanguard international Shares Select Exclusions Index Fund and 10% in the Vanguard Emerging markets Share Index Fund.

## Fund Objective

To match the performance of the Fund's benchmark over any rolling five year period.

## Fund benchmark

- 65% MSCI Developed Markets (ex-Australia) Index Net, hedged to NZ dollars.
- 25% MSCI Developed Markets (ex-Australia) Index Net, in NZ dollars.
- 10% MSCI Emerging Markets Index Net, in NZ dollars.

## Fund Manager

Public Trust

Sub-manager: Vanguard Investments Australia Pty Ltd

## Regional Allocation

REGION	FUND
United States	52.1%
Japan	7.6%
UK	5.9%
France	3.6%
China	3.4%
Other	27.4%

## Top 10 Holdings

COMPANY	COUNTRY	WEIGHTING
Apple Inc.	United States	2.02%
Microsoft Corp.	United States	1.53%
Amazon.com Inc.	United States	1.37%
Facebook Inc.	United States	0.94%
JPMorgan Chase & Co.	United States	0.88%
Johnson & Johnson	United States	0.77%
Alphabet Inc Class C	United States	0.75%
Exxon Mobile Corp.	United States	0.72%
Alphabet Inc Class A	United States	0.72%
Bank of America Corp	United States	0.70%
<b>TOTAL</b>		<b>10.40%</b>

# Australasian Share Fund

## Fund Profile

The Australasian Share Fund has a 75%/25% benchmark allocation to the top 50 listed companies in NZ and top 300 in Australia.

## Fund Strategy

The inclusion of the Australian market compliments the NZ market by offering industry sectors that are either unavailable or under-represented in NZ including banking and resources. In addition the opportunity to invest in resource stocks gives an indirect exposure to faster growing emerging economies such as China and India and the associated potential for higher returns.

The Fund invests in accordance with market capitalisation index weightings. The Fund does not hedge its Australian dollar currency exposure.

## Fund Objective

To match the performance of the Fund's benchmark over any rolling 12 month period.

## Fund benchmark

75% S&P/NZX50 Gross Index / 25% ASX300 Index (in NZ dollars)

## Fund Manager

Public Trust is our Fund Manager in NZ

Vanguard Investments Australia Pty Ltd is our Fund Manager in Australia

## Investment Sector Allocation

SECTOR	FUND	NZX	ASX
Financials	18.5%	11.2%	40.4%
Healthcare	15.7%	18.1%	8.4%
Industrials	13.5%	15.7%	6.8%
Utilities	12.0%	15.0%	3.0%
Consumer Non-Cyclicals	11.3%	13.4%	5.1%
Consumer Cyclicals	10.7%	11.6%	8.1%
Telecommunications Services	7.4%	9.0%	2.4%
Basic Materials	4.9%	0.0%	19.4%
Energy	3.8%	3.6%	4.5%
Technology	2.3%	2.4%	1.9%

## Top 10 Holdings

COMPANY	COUNTRY	WEIGHTING
Fisher & Paykel Healthcare Corp. Ltd	New Zealand	6.65%
a2 Milk Co Ltd	New Zealand	6.54%
Spark New Zealand Ltd	New Zealand	5.35%
Auckland Intl Airport Ltd	New Zealand	4.97%
Fletcher Building Ltd	New Zealand	4.63%
Ryman Healthcare Group Ltd	New Zealand	4.35%
Contact Energy Ltd	New Zealand	3.27%
Meridian Energy Ltd	New Zealand	2.94%
Z Energy Limited	New Zealand	2.37%
SkyCity Entertainment Group	New Zealand	2.15%
<b>TOTAL</b>		<b>43.20%</b>

# New Zealand Listed Property Fund

## Fund Profile

The NZ Listed Property Fund invests in large NZ listed property trusts and companies. Given the constraints of the very small and narrow NZ listed property sector, the Fund seeks to ensure well-balanced exposures to liquid, lowly geared entities rather than simply adopting benchmark weightings.

## Fund Strategy

For reasons of liquidity and effectiveness, investment is restricted to listed property – not direct property. The securities that qualify for consideration in the portfolio are those comprising the S&P/NZX Listed Property Index.

The Funds strategy is to invest an equal amount in selected securities rather than in accordance with market capitalisation weightings.

Recognising the very limited investment universe of listed property trusts, the potential risk of the portfolios is reduced by applying a quantitative overlay that we have designed. The factors in the overlay include only investing in companies with a minimum capitalisation of \$200m and gearing below 35%, unless a full risk assessment has been undertaken.

## Fund Objective

To match the performance of the Fund's benchmark over any rolling five year period.

## Fund benchmark

S&P/NZX Listed Property Index

## Fund Manager

Public Trust

## Investment Sector Allocation

COMPANY	FUND	BENCH-MARK
Goodman Property Trust	15.41%	18.27%
Stride Stapled Group	15.23%	9.31%
Precinct Properties NZ Ltd	14.34%	17.68%
Property for Industry Ltd	13.99%	12.06%
Argosy Property Ltd	13.88%	12.34%
Kiwi Property Group Ltd	13.67%	16.83%
Vital Healthcare Property Trust	12.28%	9.17%
Investore Property Group	0.00%	4.35%

# New Zealand Bond Fund

## Fund Profile

The NZ Bond Fund has a benchmark investment weighting of 35% in NZ government bonds and 65% in selected investment grade NZ corporate and local authority bonds.

## Fund Strategy

Capital preservation is considered to be the key criteria for fixed interest and therefore all securities must have a minimum long-term credit rating of BBB- (commonly referred to as investment grade).

The highest potential return (and highest potential risk) comes from a portfolio of solely investment grade corporate bonds – rather than government stock. However, the risk adjusted return is only marginally better than that of a portfolio of government stock. Furthermore, in periods of extreme market stress, government stock significantly outperforms corporate bonds.

The optimal strategy for the fund is judged to be a benchmark investment weighting of 35% in government stock (in accordance with the weightings of the S&P/NZX Government Stock Index) and 65% in investment grade corporate bonds (referenced to the weightings of the S&P/NZX Investment Grade Corporate Bond Index).

The credit quality of the index portfolio is enhanced through applying a quantitative overlay that we have designed. The factors in the overlay include; excluding subordinated securities, perpetual or callable securities and securities issued by non-resident entities with a credit rating less than AAA. Diversification in addition to that represented by the S&P/NZX Investment Grade Corporate Bond Index is achieved by limiting the maximum exposure to individual issuer according to credit rating, the exposure to credit rating bands and exposure to industry categories.

## Fund Objective

To match the performance of the Fund's benchmark over any rolling 12 month period.

## Fund benchmark

65% S&P/NZX Investment Grade Corporate Bond Index  
35% S&P/NZX NZ Government Stock Index

## Fund Manager

Public Trust

## Industry Sector Allocation

SECTOR	FUND
Government	56.7%
Financial	26.4%
Utilities	8.6%
Consumer. Non-cyclical	2.9%
Industrial	2.7%
Communications	2.0%
Consumer. Cyclical	0.7%

## Top 10 Issuers

ISSUER	CREDIT RATING	WEIGHTING
New Zealand (Government)	AA+	34.39%
New Zealand (Local Government Funding Agency Ltd)	AA+	17.20%
Westpac NZ Ltd	AA-	6.83%
Bank of New Zealand	AA-	5.49%
ANZ Bank NZ Ltd	AA-	4.34%
Auckland Council	AA	3.89%
ASB Bank Ltd	AA-	3.35%
Transpower NZ Ltd	AA-	2.46%
Rabobank NZ Ltd	A+	1.81%
Auckland International Airport Ltd	A-	1.76%
<b>TOTAL</b>		<b>81.52%</b>

# New Zealand Cash Fund

## Fund Profile

The NZ Cash Fund invests in short-term NZ bank deposits and securities plus NZ money market securities.

## Fund Strategy

Potential returns increase moderately as the investment term increases. However, the volatility of return increases at a faster rate than the return improves. Consequently the best risk adjusted return is represented by the three month investment term. Accordingly the fund invests in accordance with the maturity profile of the funds benchmark (short-term bank securities).

The potential performance of the fund is enhanced by investing in securities that offer a higher return than assumed in the index.

The credit risk and revaluation risk of the portfolio is controlled by having a high short-term minimum credit rating of A2 and a cap on individual issuers and industries.

## Fund Objective

To match the performance of the Fund's benchmark over any rolling 12 month period.

## Fund benchmark

S&P/NZX 90 Day Bank Bill Index

## Fund Manager

Public Trust

## Investment Sector Allocation

SECTOR	FUND
Bank	92.8%
Corporate	7.2%

## Top 10 Issuers

ISSUER	CREDIT RATING	WEIGHTING
ANZ National	A1+	21.16%
BNZ	A1+	21.12%
Westpac	A1+	16.92%
ASB	A1+	11.30%
Kiwibank	A1	10.29%
China Construction Bank	A1	5.42%
Bank of China	A1	3.61%
Toyota Finance	A1+	3.01%
Industrial and Commercial Bank of China	A1	2.42%
Port of Tauranga	A2	2.39%
<b>TOTAL</b>		<b>97.66%</b>

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