



# Public Trust Investment Service.

Diversified Funds  
Quarterly Update  
30 June 2017

## 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.

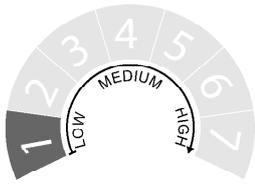
The Funds referred to in this Quarterly Update are used by Public Trust as investment options where it is acting as trustee or co-trustee of an estate or trust, or as property attorney or property manager for a non-consultable customer.

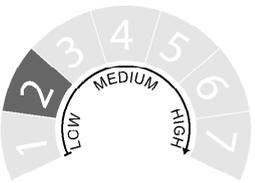
The Funds are not open to members of the public.

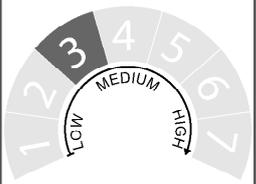
Any reference to us, we or our, refers to Public Trust.

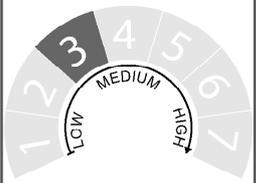
# Description of the funds

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.	
Management fee	0.40% of your balance each year
Third party management fees	Nil
Entry/exit spread	Nil
Total value of the Fund	\$10.12m
Unit price (redemption)	1.0567
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).	
Management fee	1.05% of your balance each year
Third party management fees	0.03% of your balance each year
Entry/exit spread	+/- 0.13%
Total value of the Fund	\$99.87m
Unit price (redemption)	1.1060
Fund start date	28 July 2014

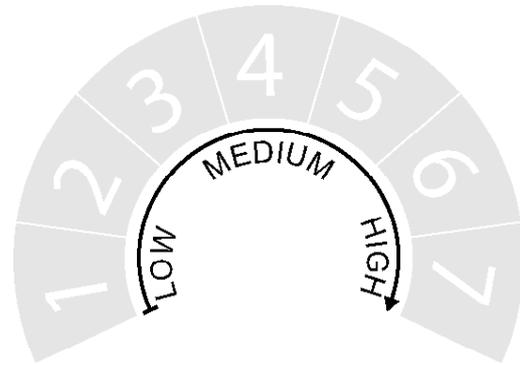
Conservative Portfolio	
Aims to produce stable returns with some capital growth and low to medium risk over the medium-term by investing 62.5% in the Defensive Fund and 37.5% in the Balanced Fund.	
Management fee	1.11% of your balance each year
Third party management fees	0.05% of your balance each year
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.	
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).	
Management fee	1.20% of your balance each year
Third party management fees	0.04% of your balance each year
Entry/exit spread	+/- 0.26%
Total value of the Fund	\$227.94m
Unit price (redemption)	1.1794
Fund start date	24 July 2014

# What are the risks of investing?

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.

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.	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	+/- 0.29%
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).	Risk indicator
Management fee	1.25% of your balance each year
Third party management fees	0.06% of your balance each year
Entry/exit spread	+/- 0.32%
Total value of the Fund	\$33.92m
Unit price (redemption)	1.1911
Fund start date	28 July 2014

# 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%	0.01%
Conservative Portfolio	1.11%	0.03%
Moderate Portfolio	1.16%	0.04%
Balanced Fund	1.20%	0.04%
Balanced Growth Portfolio	1.20%	0.05%
Growth Fund	1.25%	0.06%

To be added to the Public Trust management fee is GST at the rate of 1.5%. This lower rate is because of the Trustee Corporations Association of New Zealand agreement with Inland Revenue that only 10% of the amount of the management fee is subject to GST.

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*	-0.4%	15.5%
NZ shares	5.9%	11.7%
Australian shares*	-5.5%	14.3%
NZ listed property	4.4%	1.8%

\* In NZ Dollar terms

	Returns	
	Quarter	Year
NZ bonds	1.4%	0.2%
Cash	0.5%	2.2%
NZ Dollar**	3.1%	3.2%

\*\* In trade weighted index terms

## Commentary

**Global share markets shrugged off a host of adverse factors to finish generally stronger, delivering another good quarter for investors.**

During the period there was a series of events that had the potential to derail the positive momentum of global share markets. These included an investigation into the Trump administrations links to Russia, a shock election result in Britain, escalation of the rhetoric between US and North Korea, a sharp fall in commodity prices and a hike in the US official cash rate.

Remarkably, despite all these factors global share markets continued to rise. Most notable was the US which hit new record highs while remarkably volatility hit new record lows. Analysts are struggling to explain the apparent complacency of share markets particularly as long term interest rates have been falling which is generally an indicator of declining growth prospects. The path of various markets during the quarter is outlined in the chart below:

Here in New Zealand the story was a similar one. A recovery in dairy prices, record immigration and tourism are underpinning a buoyant economy. Despite the high level of activity inflation, while rising of a very low base, remains well contained primarily due to a strong NZ Dollar. As a result the Reserve Bank of New Zealand expects to leave the Official Cash Rate at its current record low of 1.75% well into next year.

The upturn in world economic activity is both overdue and welcome. Given financial markets forward looking nature much of the improved prospects have already been factored into sharemarket's. In addition investor confidence/complacency, as measured by low implied volatility, appears high. Consequently sharemarket's are exposed to the risk that things do not work out as well as currently anticipated. A particular source of risk remains the US Trump administrations ability to pass the legislation that underpins the current rosy view of America's prospects. In particular failure to pass the proposed radical new tax regulations would be a serious setback and likely to see the US sharemarket (and many others) significantly lower.

One school of thought for the remarkable performance of global share markets during the quarter is that the rapidly increasing trend to indexed/passive investing rather than active stock picking is driving share prices up irrespective of value. Another is that falling commodity prices are due to excess supply rather than a shortfall in demand and consequently this will mean inflation will fall, allowing interest rates to be lower for longer. In this environment current high share prices still remain relatively attractive

The New Zealand sharemarket was one of those that hit a new record high during the quarter. This was accompanied by a sharp rise in the NZ Dollar. Both of these events reflected continued good news on the economic front with our terms of trade (export prices versus import prices) improving, tourist numbers remaining extremely strong and construction still strong.

Despite the strong economy the Reserve Bank of New Zealand kept the Official Cash Rate at its record low of 1.75% and indicated that it could stay there for quite some time. It appears that despite the high level of activity in the economy factors such as falling commodity prices (particularly oil) and a strong NZ Dollar are holding inflation down. This scenario is very supportive of our local sharemarket.

Given the elevated levels of many of the world's share markets some caution is warranted. In particular the rate of global economic growth is beginning to soften. If this is sustained it would suggest that perhaps long term interest rates have been correct all along and that global growth is set to slow significantly - not good news for share markets.

# How have the Funds performed?

	Past Quarter	1 Year	Annualised since inception
Cash Fund	0.62%	2.37%	2.49%
Defensive Fund	1.23%	3.42%	4.38%
Conservative Portfolio	1.43%	5.12%	5.14%
Moderate Portfolio	1.63%	6.83%	5.91%
Balanced Fund	1.76%	7.96%	6.42%
Balanced Growth Portfolio	1.88%	9.18%	6.67%
Growth Fund	1.99%	10.40%	6.91%

## Note on returns

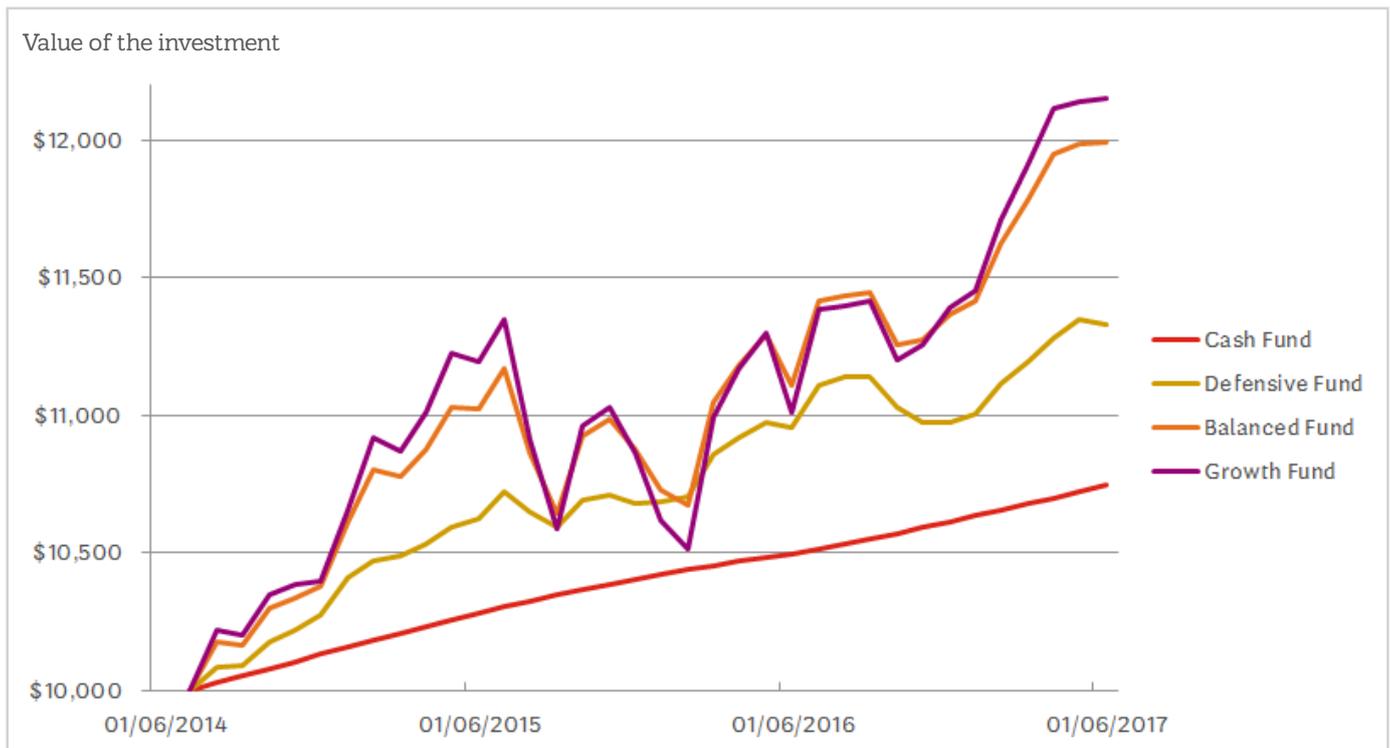
They also assume that distributions are reinvested. Fund returns are after deductions for charges, but before tax. Important: Returns reflect past performance and do not indicate future performance.

## Commentary on performance

Fund returns for the quarter, while down a little from the previous quarters very strong levels, were still generally strong. This reflected another good quarter for share markets, particularly in New Zealand. Returns for the year and since inception are above long-term expected levels.

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

Growth of a \$10,000 investment

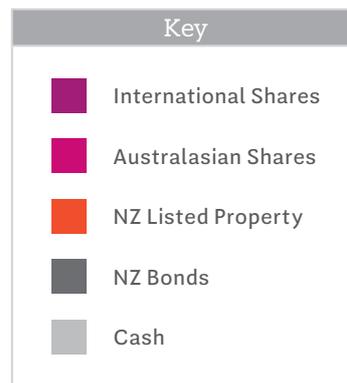
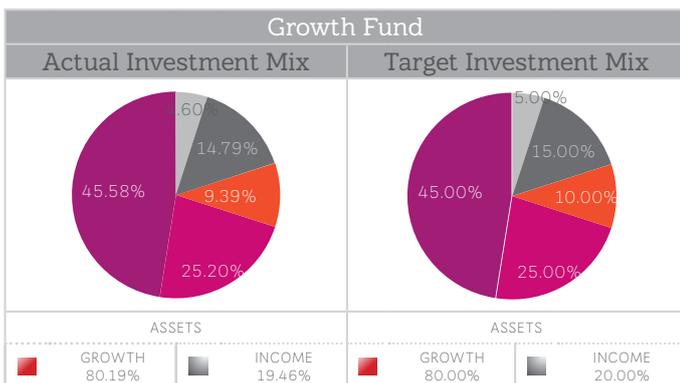
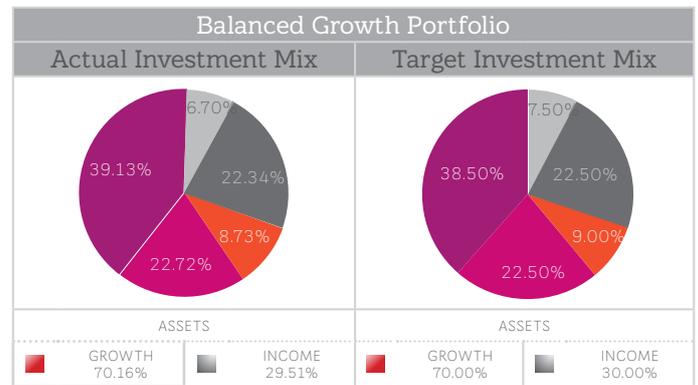
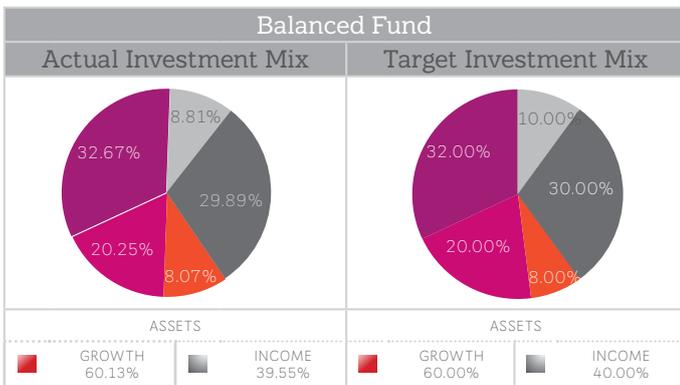
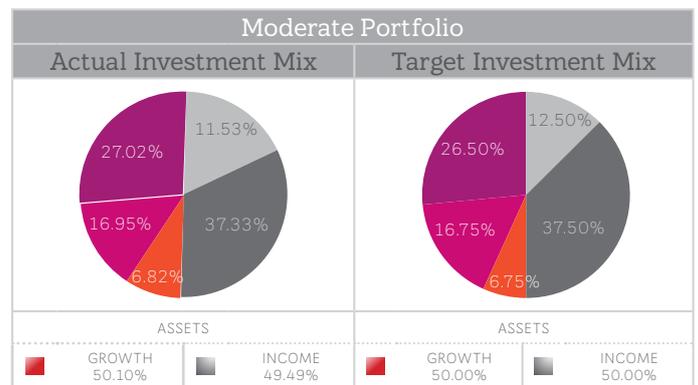
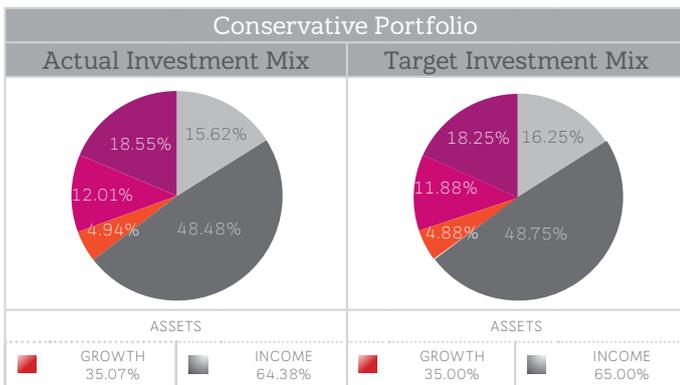
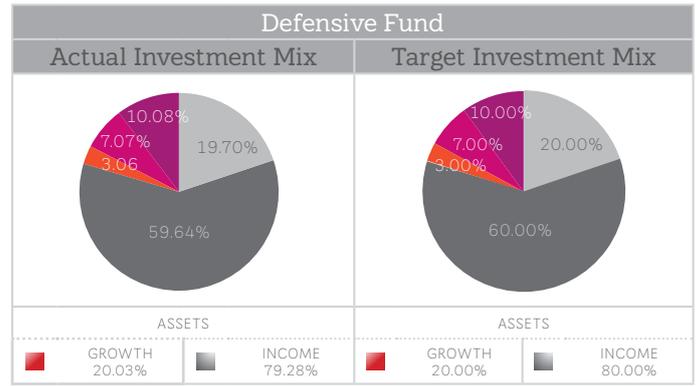
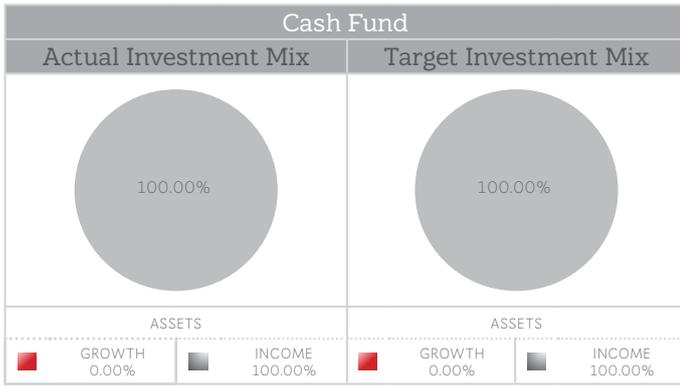


Assumes standard management fees, reinvestment of distributions and zero tax rate.

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](http://www.publictrust.co.nz).

# What do the Funds invest in?



# Top 10 holdings

## GROWTH ASSETS

INTERNATIONAL SHARES		
COMPANY	COUNTRY	WEIGHTING
Apple Inc.	USA	2.00%
Microsoft Corp.	USA	1.27%
Amazon.com Inc.	USA	0.99%
Facebook Inc. Class A	USA	0.87%
Johnson & Johnson	USA	0.86%
Exxon Mobil Corp.	USA	0.82%
Alphabet Inc Class C	USA	0.74%
JPMorgan Chase & Co.	USA	0.72%
Alphabet Inc Class A	USA	0.72%
Nestle	Switzerland	0.65%
<b>TOTAL</b>		<b>9.63%</b>

AUSTRALASIAN SHARES		
COMPANY	COUNTRY	WEIGHTING
Spark New Zealand	New Zealand	8.24%
Auckland Intl Airport	New Zealand	7.87%
Fisher & Paykel Healthcare	New Zealand	7.57%
Fletcher Building	New Zealand	6.54%
Ryman Healthcare Group	New Zealand	4.58%
Contact Energy	New Zealand	4.42%
Meridian Energy	New Zealand	4.18%
Z Energy	New Zealand	3.75%
a2 Milk Co	New Zealand	3.43%
SkyCity Entertainment Group	New Zealand	3.19%
<b>TOTAL</b>		<b>53.78%</b>

NZ LISTED PROPERTY	
COMPANY	WEIGHTING
Vital Healthcare	14.49%
Goodman Property	14.39%
Stride Property	14.34%
Property For Industry	14.33%
Kiwi Property Group	14.10%
Argosy Property	14.03%
Precinct Property	13.92%
<b>TOTAL</b>	<b>99.59%</b>

## INCOME ASSETS

NZ BONDS		
ISSUER	CREDIT RATING	WEIGHTING
New Zealand (Government)	AA+	35.92%
NZ Local Government Funding Agency Ltd	AA+	16.95%
Westpac New Zealand Ltd	A+	5.95%
ASB Bank Ltd	A+	4.66%
ANZ bank New Zealand Ltd	A+	4.64%
Auckland Council	AA	3.85%
Bank of New Zealand	A+	3.56%
Contact Energy Ltd	BBB	2.82%
Fonterra Co-operative Group Ltd	A-	2.79%
Coöperatieve Rabobank U.A. (New Zealand Branch)	A+	2.39%
<b>TOTAL</b>		<b>83.54%</b>

NZ CASH		
ISSUER	CREDIT RATING	WEIGHTING
ANZ	A1+	19.20%
BNZ	A1+	15.54%
China Construction Bank	A1	12.26%
Kiwibank	A1	9.85%
Industrial and Commercial Bank of China	A1	9.82%
Westpac	A1+	8.16%
Bank Of China	A1	8.05%
ASB	A+	4.94%
Heartland Trust (Asset Backed)	A1+	3.26%
Retail Financial Service (Asset Backed)	A1+	2.44%
<b>TOTAL</b>		<b>93.51%</b>

# Key personnel

Position	Investment Committee Chair	Chief Executive	Head of Investments
Name	Fiona Oliver	Bob Smith	Colin Thomson
Time in position	2 years 11 months	3 years 6 months	10 years 2 months
Previous Position	Committee member	Consultant to the Chief Executive	Investment Manager
Time in previous position	4 years 10 months	12 months	6 years 4 months
Employer	Public Trust Board member	Public Trust	Public Trust

## 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 July 2017, a copy of which is available on request to Public Trust.

## Contact information

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