

Public Trust Investment Service Diversified Funds

Funds Update

For the quarter ended 31 December 2016

with you for
generations
to come



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 of 2013.

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.

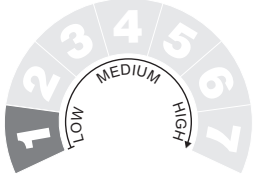
The Funds referred to in this Quarterly Update are used by Public Trust as investment options where it is acting as trustee, co-trustee or attorney of an estate, trust or non-consultable agency.

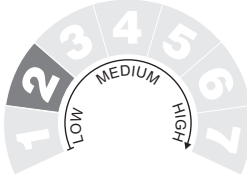
The Funds are not open to members of the public.

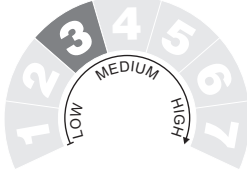
Any reference to us, we or our, refers to Public Trust.

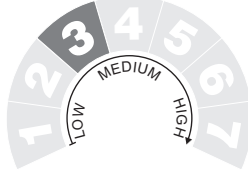
Description of the funds

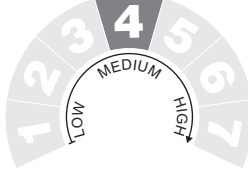
There are seven options offered in the Public Trust Investment Service Diversified Funds. The options referred to in this document are used by Public Trust as investment options in situations where it is acting as trustee, co-trustee or attorney of an estate, trust or non-consultable agency. The Funds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

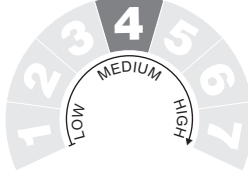
Cash Fund	
Aims to produce low risk returns by investing in short-term bank deposits and fixed interest securities.	
	Risk indicator
Management fee	0.40% of your balance each year
Third party management fees	Nil
Entry/exit spread	Nil
Total value of the Fund	\$10.73m
Unit price (redemption)	1.0628
Fund start date	28 July 2014

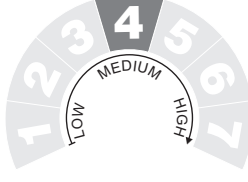
Defensive Fund	
Aims to produce stable returns with low capital growth and low risk over the medium-term by investing 80% in diversified income assets (cash and bonds) and 20% in diversified growth assets (shares and listed property).	
	Risk indicator
Management fee	1.05% of your balance each year
Third party management fees	0.03% of your balance each year
Entry/exit spread	+/- 0.13%
Total value of the Fund	\$89.85m
Unit price (redemption)	1.0968
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	0.05% 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.	
	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

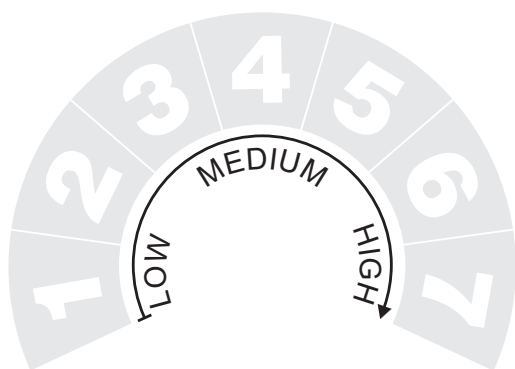
Balanced Fund	
Aims to produce long-term capital growth with medium levels of risk by investing 60% in diversified growth assets (shares and listed property) and 40% in diversified income assets (cash and bonds).	
	Risk indicator
Management fee	1.20% of your balance each year
Third party management fees	0.04% of your balance each year
Entry/exit spread	+/- 0.26%
Total value of the Fund	\$223.62m
Unit price (redemption)	1.1374
Fund start date	24 July 2014

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	\$34.08m
Unit price (redemption)	1.1327
Fund start date	28 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.

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.

All administration expenses are covered by the Public Trust management fee. Some Funds may incur brokerage costs on individual transactions but any brokerage costs will be immaterial to the Fund concerned.

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*	5.5%	5.9%
NZ shares	-6.4%	10.1%
Australian shares*	3.8%	9.2%
NZ listed property	-6.2%	3.8%

* In NZ Dollar terms

	Returns	
	Quarter	Year
NZ bonds	-3.4%	3.4%
Cash	0.6%	2.5%
NZ Dollar**	1.0%	4.5%

** In trade weighted index terms

Commentary

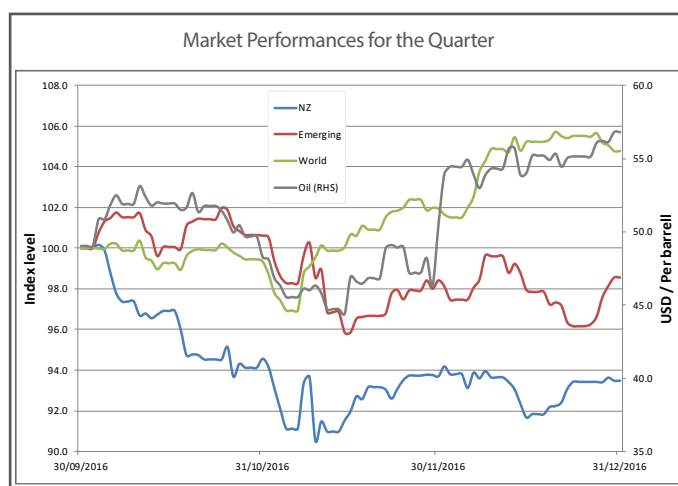
The quarter was notable for sharply rising global long-term interest rates, accelerated by the shock election of Donald Trump as President of the United States.

In the previous quarter global long-term interest rates had begun to rise in anticipation of more countries using fiscal policy i.e. taking on more debt, to supplement monetary policy in trying to stimulate economies still struggling nearly 10 years after the Global Financial Crisis. This trend continued in the first couple of months of this quarter as improving economic data out of the US in particular indicated that the Federal Reserve Board (Fed) would be increasingly likely to raise their official cash rate in December.

The rise in long-term interest rates saw a sea change in investor preferences within sharemarket's. Companies that had previously been favoured for their income generating characteristics fell out of favour and companies that had more growth opportunities were favoured. Perhaps the ultimate expression of this new view was the reversal in fortunes of the NZ sharemarket, long a standout performer. This fell more than 9% from its early-September high, as offshore investors left our more defensive/income orientated markets in favour of other world markets, notably the US.

The interest rate and sharemarket trends accelerated sharply in November after the shock election of Donald Trump as President of the United States. Investors moved quickly to factor in potential implications of his policy, principally the issuance of more government bonds to fund aggressive fiscal stimulus and favouring traditional employment companies (manufacturing and energy) over technology companies.

The prospect of an increase in US growth as well as higher interest rates saw the US Dollar soar. The divergent performance of different markets is outlined in the chart below.



Source: Thomson Reuters, Public Trust

In December the Fed did indeed raise its official cash rate 0.25% to 0.75% – the first such rise in a year. This was in contrast to the Reserve Bank of New Zealand (RBNZ) which in November cut the local Official Cash Rate (OCR) by 0.25% to a record low of 1.75%. The RBNZ cited a persistently strong NZ Dollar as warranting a lower OCR despite a series of positive economic data, most notably a significant recovery in dairy prices.

The move in financial markets since the US election is extraordinary considering that Trump has yet to assume the Presidency, clearly articulate his policies and have these policies approved, let alone for them to prove effective. Given this, it is likely that financial market volatility will be higher than normal in coming quarters as investors react to progress on key policies of the new US administration.

The quarter was notable for sharply rising global long-term interest rates, accelerated by the shock election of Donald Trump as President of the United States.

How have the Funds performed?

	Past Quarter	1 Year	Annualised since inception
Cash Fund	0.57%	2.18%	2.54%
Defensive Fund	-1.57%	2.57%	3.88%
Conservative Portfolio	-1.23%	3.07%	4.45%
Moderate Portfolio	-0.88%	3.56%	5.03%
Balanced Fund	-0.66%	3.89%	5.42%
Balanced Growth Portfolio	-0.36%	4.05%	5.34%
Growth Fund	-0.06%	4.21%	5.26%

Note on returns

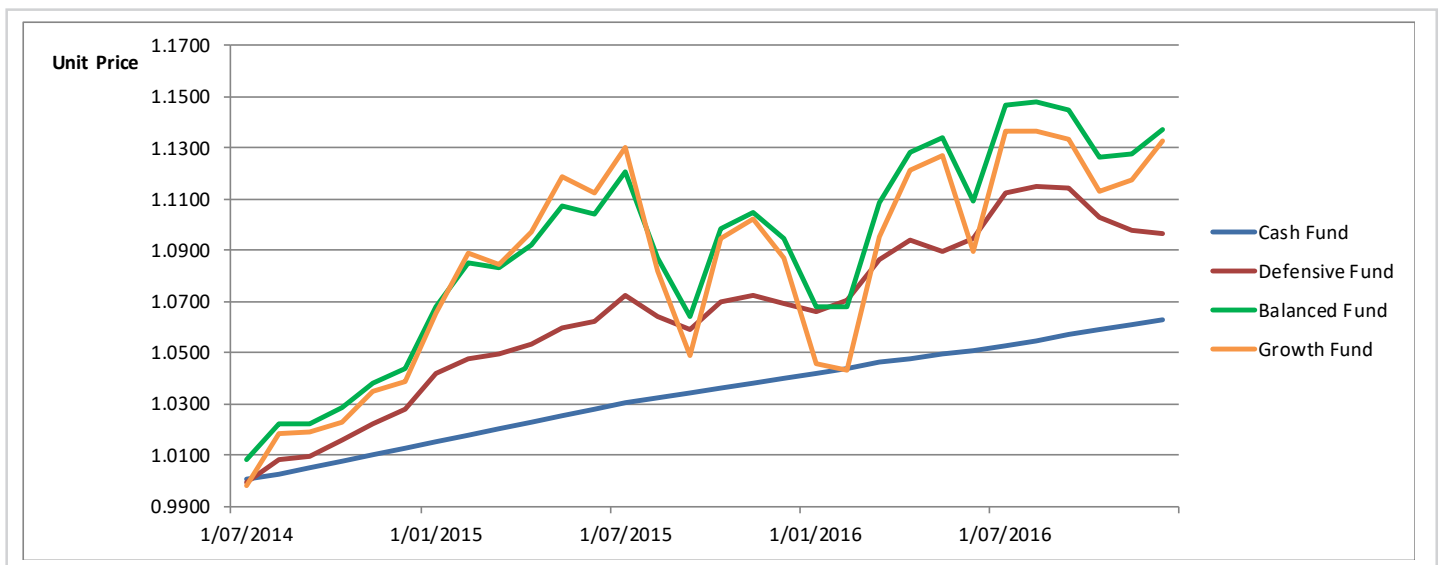
Fund returns are after deductions for charges, but before tax.

Important: Returns reflect past performance and do not indicate future performance.

Commentary on performance

Fund returns for the quarter were well down on the previous quarter and below the long-term expected level. This reflected a particularly weak period for both NZ bonds and NZ shares. Despite the weak quarter the performance of the Funds since inception is in line with the long-term expected level.

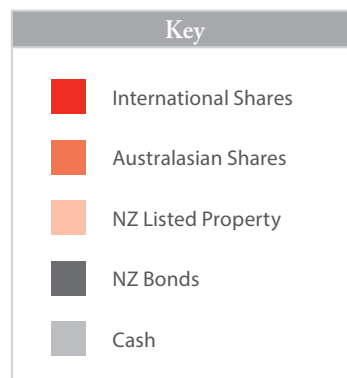
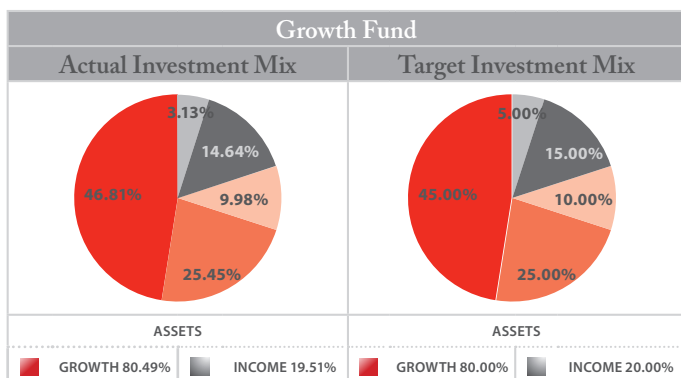
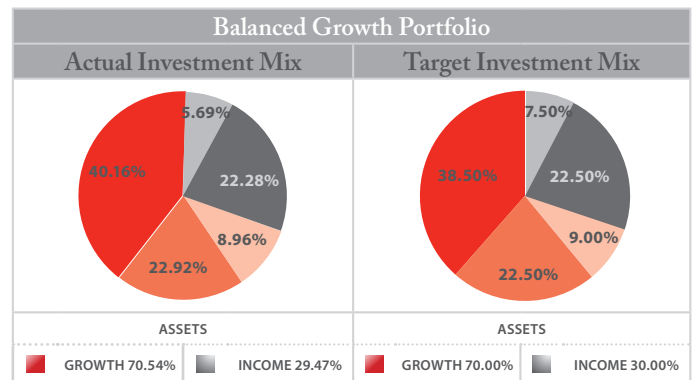
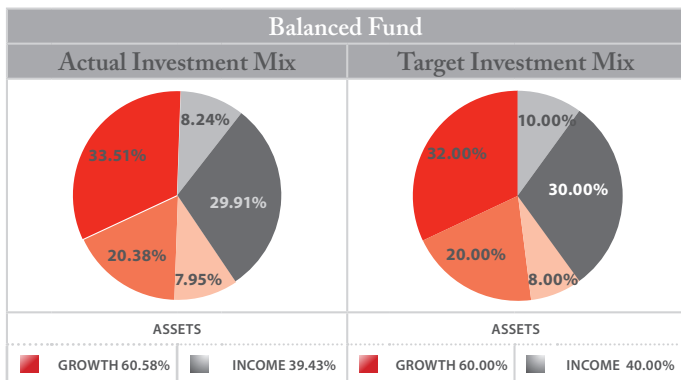
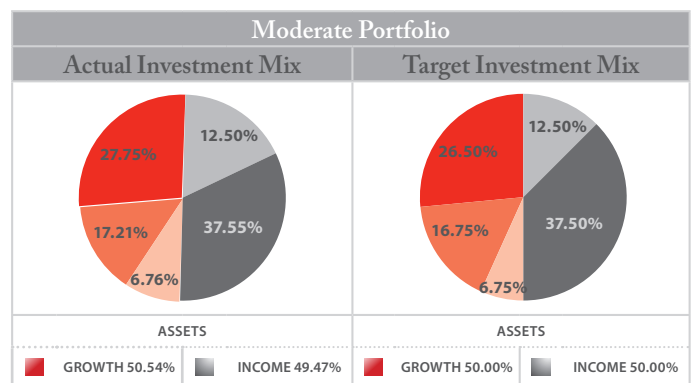
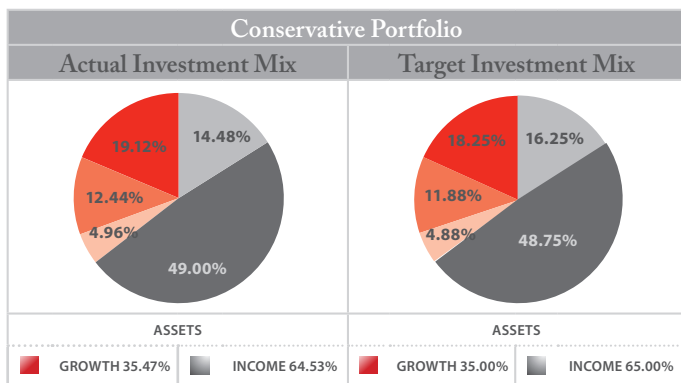
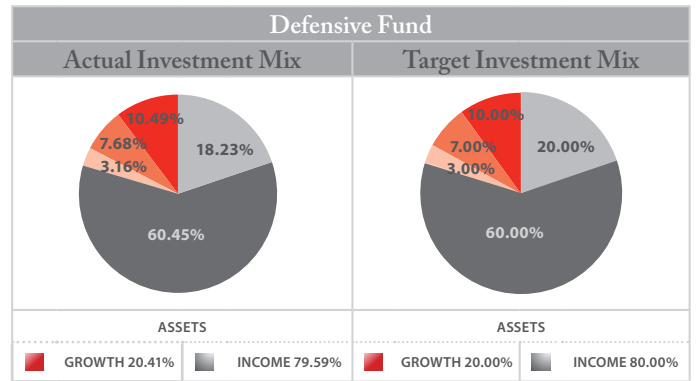
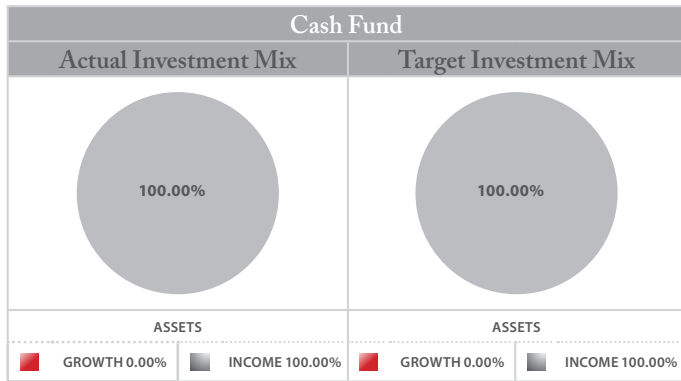
The month end unit price series for each of the Funds is outlined in the chart below. It is notable that since inception the diversified Funds have significantly outperformed the cash Fund.



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	United States	1.66%
Microsoft	United States	1.24%
Exxon Mobil	United States	0.97%
Johnson & Johnson	United States	0.84%
Amazon	United States	0.83%
General Electric	United States	0.78%
JPMorgan Chase	United States	0.76%
Facebook	United States	0.76%
Wells Fargo	United States	0.68%
AT&T	United States	0.65%
TOTAL		9.17%

AUSTRALASIAN SHARES

COMPANY	COUNTRY	WEIGHTING
Fletcher Building	New Zealand	7.14%
Spark New Zealand	New Zealand	6.18%
Auckland Intl Airport	New Zealand	5.82%
Fisher & Paykel Healthcare	New Zealand	4.68%
Ryman Healthcare Group	New Zealand	3.72%
Contact Energy	New Zealand	3.27%
Meridian Energy	New Zealand	3.01%
Z Energy	New Zealand	2.86%
Westpac Banking	Australia	2.53%
SkyCity Entertainment	New Zealand	2.51%
TOTAL		41.73%

NZ LISTED PROPERTY

COMPANY	WEIGHTING
Property For Industry	14.70%
Kiwi Property Group	14.54%
Precinct Property	14.46%
Argosy Property	14.31%
Goodman Property	14.13%
Vital Healthcare	14.07%
Stride Property	13.76%
TOTAL	99.98%

INCOME ASSETS

NZ BONDS

ISSUER	CREDIT RATING	WEIGHTING
NZ Government	AA+	34.64%
NZ Local Government Funding Agency	AA+	16.53%
BNZ	AA-	5.39%
ANZ	AA-	4.77%
Westpac	AA	5.79%
ASB	AA-	5.33%
Auckland Council	AA	3.96%
Rabobank	A+	2.85%
Fonterra	A-	2.43%
Transpower	AA-	1.56%
TOTAL		83.25%

NZ CASH

ISSUER	CREDIT RATING	WEIGHTING
ANZ	A1+	23.60%
Westpac	A1+	17.38%
BNZ	A1+	13.31%
Kiwibank	A1	12.27%
Bank of China	A1	8.20%
China Construction Bank	A1	8.18%
ASB	A1+	6.17%
Heartland Trust	A1+	4.07%
Rabobank	A1	2.67%
Retail Financial Services	A1+	2.04%
TOTAL		97.89%

Key personnel

Position	Investment Committee Chair	Chief Executive	Head of Investments
Name	Fiona Oliver	Bob Smith	Colin Thomson
Time in position	2 years 5 months	3 years	9 years 8 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 January 2017, a copy of which is available on request to Public Trust.

Contact information

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