



# Public Trust Investment Service.

## Diversified Funds Quarterly Update 30 June 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.

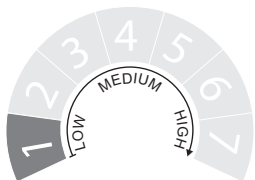
The Funds referred to in this Quarterly Update are used by Public Trust as investment options where it is acting as trustee or co-trustee of an estate or trust, or as property attorney or property manager for a non-consultable customer.

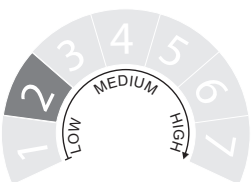
The Funds are not open to members of the public.

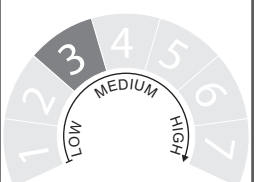
Any reference to us, we or our, refers to Public Trust.

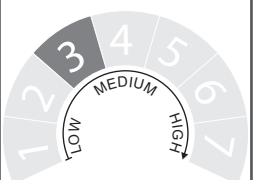
# Description of the funds

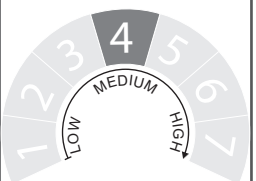
There are seven options offered in the Public Trust Investment Service Diversified Funds. The Funds referred to in this Quarterly Update are used by Public Trust as investment options where it is acting as trustee or co-trustee of an estate or trust, or as property attorney or property manager for a 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	\$9.28m
Unit price (redemption)	1.0580
Fund start date	28 July 2014

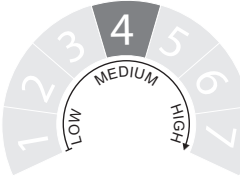
Defensive Fund	
Aims to produce stable returns with low capital growth and low risk over the medium-term by investing 80% in diversified income assets (cash and bonds) and 20% in diversified growth assets (shares and listed property).	 Risk indicator
Management fee	1.05% of your balance each year
Third party management fees	0.03% of your balance each year
Entry/exit spread	+/- 0.13%
Total value of the Fund	\$126.35m
Unit price (redemption)	1.1327
Fund start date	28 July 2014

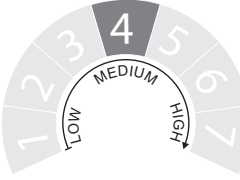
Conservative Portfolio	
Aims to produce stable returns with some capital growth and low to medium risk over the medium-term by investing 62.5% in the Defensive Fund and 37.5% in the Balanced Fund.	 Risk indicator
Management fee	1.11% of your balance each year
Third party management fees	0.05% of your 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

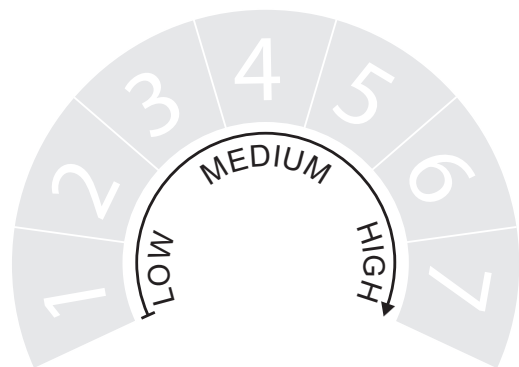
Balanced Fund	
Aims to produce long-term capital growth with medium levels of risk by investing 60% in diversified growth assets (shares and listed property) and 40% in diversified income assets (cash and bonds).	 Risk indicator
Management fee	1.20% of your balance each year
Third party management fees	0.04% of your balance each year
Entry/exit spread	+/- 0.26%
Total value of the Fund	\$228.47m
Unit price (redemption)	1.2630
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	0.05% 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).	 <p>Risk indicator</p>
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	\$26.11m
Unit price (redemption)	1.3028
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%	0.01%
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%

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*	7.1%	19.7%
NZ shares	7.7%	18.9%
Australian shares*	11.3%	17.7%
NZ listed property	5.9%	8.9%

\* In NZ Dollar terms

	Returns	
	Quarter	Year
NZ bonds	1.0%	4.2%
Cash	0.5%	2.0%
NZ Dollar**	-2.5%	-7.6%

\*\* In trade weighted index terms

## Commentary

**Global equity markets enjoyed a strong second quarter offsetting the losses reported in the first quarter and ended in positive territory for the six months to 30 June. Market volatility has continued in the June quarter driven by political uncertainty in Europe, rising interest rates in the US, higher oil prices, and trade tensions between the US and the rest of the world.**

### Global Equities

Australian and UK equity markets rose 8.5% and 9.4% respectively in local currency terms. This was the best quarterly return from UK shares in more than five years, while the Australian market posted the best gain since March 2015. The drop in the NZ dollar added to returns for NZ Investors in both markets with Australian shares up 11.3% and the UK up 9.7% in NZ dollar terms.

The US equity market rose 3.4% in local currency but rose 10.2% in New Zealand dollar terms. On a trade weighted basis the New Zealand dollar was down -2.5% for the quarter mostly on the back of a strengthening US dollar and a decline in NZ GDP numbers and business confidence.

The US economy remains strong with positive earnings momentum and supportive data with the unemployment rate reaching an 18 year low of 3.8%, accompanied by very low wage growth. The US Federal Reserve raised rates by 0.25% in June and it is expected that there will be two further rate increases this year and three next year.

Positive economic data must be balanced against increased trade tension as the US imposed tariffs on imports from China, Europe and Canada and the subsequent retaliation from those regions. Any escalation of these disputes would impact global growth and eventually leading to an economic slowdown which would be negative for global equity markets.

### Emerging Markets

Emerging markets fell -3.5% during the quarter due to uncertainty regarding global trade, political uncertainty and industrial action.

### New Zealand

The NZ sharemarket rose 7.7% during the quarter and was one of the best performing equity markets in local currency terms. There are increasing signs that growth in the New Zealand economy is easing. Net migration continues to fall, business sentiment is down following last year's election and rising fuel prices in Auckland are expected to have a negative effect on consumer spending. However, there are a number of positive influences on the economy with unemployment at its lowest level in a decade, the decline in the exchange rate which is benefiting exporters and Fonterra's farm gate payout for the current season is the third highest in the past decade.

### Outlook

The outlook for global growth continues to be positive although there are regions where growth is waning. Tax cuts, deregulation, and business investment continues to drive growth on the US. Growth in Europe, Japan and New Zealand has eased. We expect growth in the NZ to moderate going forward but remain above 2% over the next 12 months.

Equity market valuations are at the upper end of their long term averages which suggests that markets are not cheap. We expect continued volatility in financial markets going forward driven by the ongoing trade war between the US and the rest of the world, political uncertainty in Europe and potential surprises on the upside with US inflation.

# How have the Funds performed?

	Past Quarter	1 Year	Annualised since inception
Cash Fund	0.62%	2.49%	2.49%
Defensive Fund	1.82%	5.20%	4.59%
Conservative Portfolio	2.60%	6.84%	5.57%
Moderate Portfolio	3.38%	8.48%	6.56%
Balanced Fund	3.91%	9.57%	7.22%
Balanced Growth Portfolio	4.33%	10.68%	7.68%
Growth Fund	4.76%	11.79%	8.14%

## 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

All funds were positive for the quarter with funds holding a larger exposure to shares benefitting the most. While sharemarkets have been strong the weakening NZ dollar assisted with the strong performance particularly for NZ investors holding US shares. All funds are positive year to date.

The prospect of rising inflation and global trade tensions will continue to have an impact on total returns and should ensure markets remain volatile.

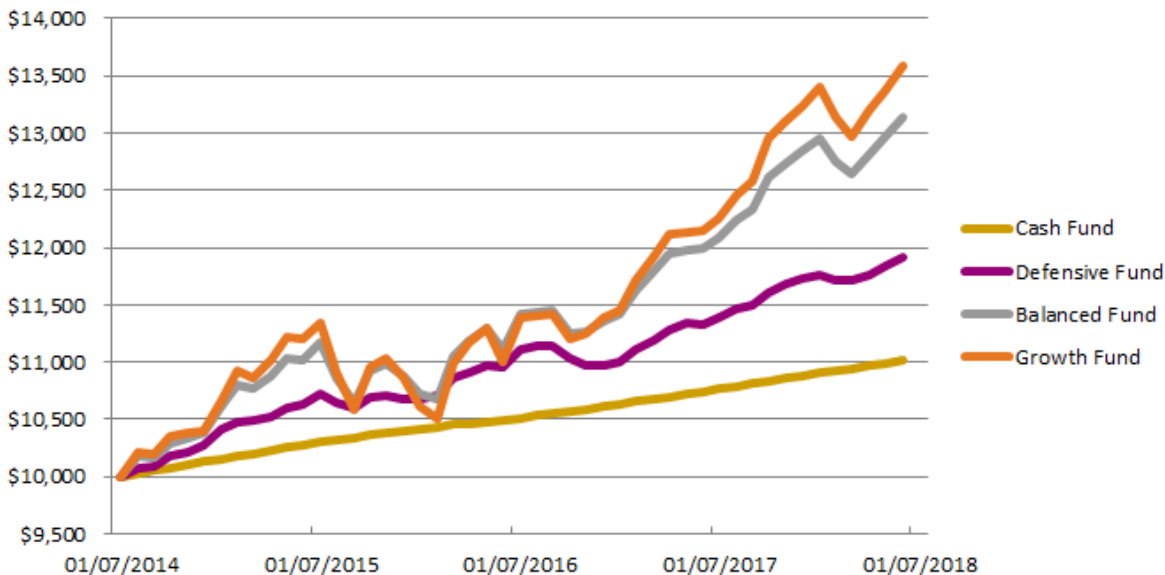
The Diversified Funds Service focuses on investing in high quality assets including NZ Government Bonds, Corporate Bonds with an investment grade rating above BBB- and avoids assets such as preference shares, high yield bonds or subordinated debt which can in times of market stress react extremely negatively.

After a period of strong markets, we do expect both income and growth returns to be lower in 2018.

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

Value of the investment

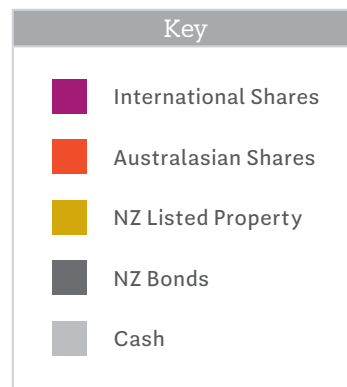
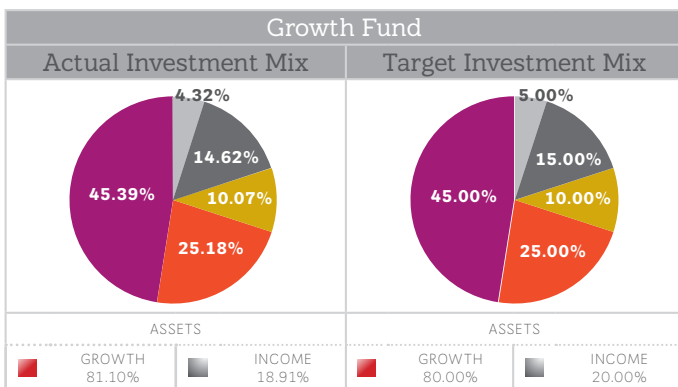
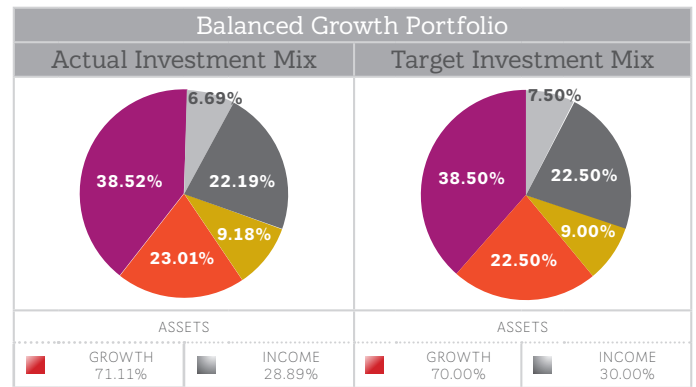
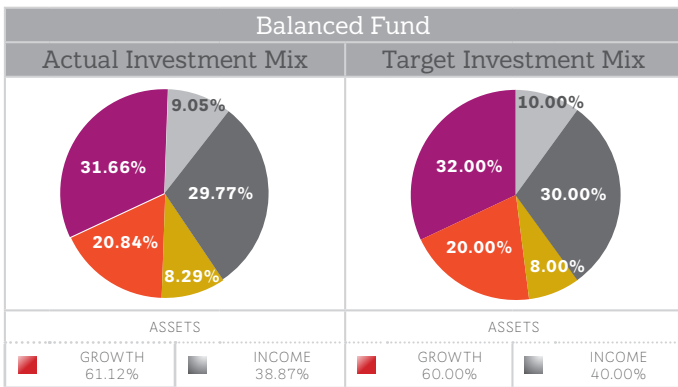
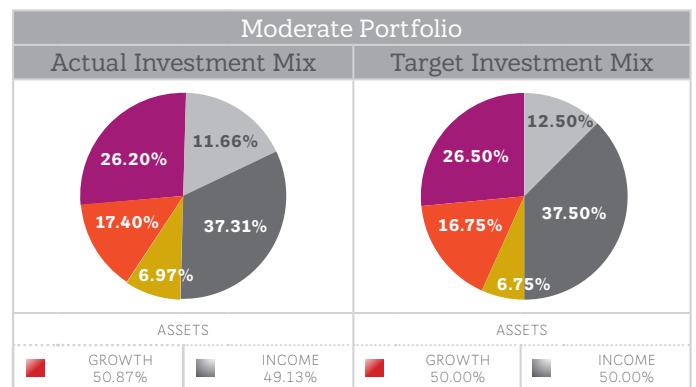
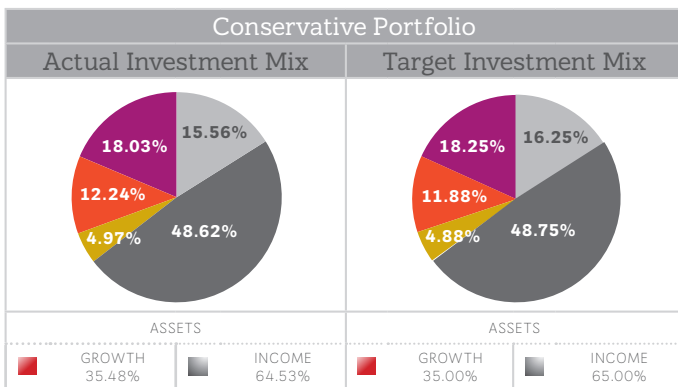
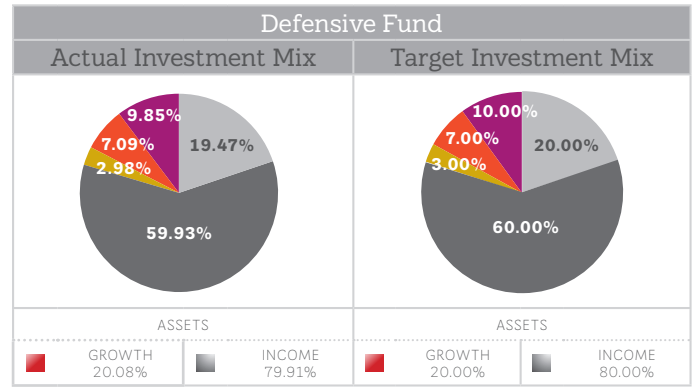
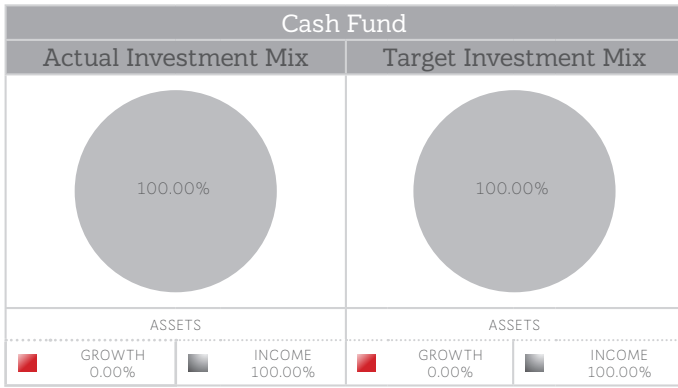


Assumes standard management fees, reinvestment of distributions and zero tax rate.

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

# What do the Funds invest in?



# Top 10 holdings

## GROWTH ASSETS

INTERNATIONAL SHARES		
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%
Alphabet Inc Class A	United States	0.72%
Exxon Mobil Corp	United States	0.72%
Bank of America Corp.	United States	0.70%
<b>TOTAL</b>		<b>10.40%</b>

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

NZ LISTED PROPERTY		
COMPANY	FUND	BENCH-MARK
Goodman Property Trust	15.41%	17.86%
Stride Stapled Group	15.23%	9.23%
Precinct Properties NZ	14.34%	17.19%
Property for Industry	13.99%	12.03%
Argosy Property	13.88%	12.02%
Kiwi Property Group	13.67%	17.60%
Vital Healthcare Property Trust	12.28%	9.82%
<b>TOTAL</b>	<b>98.79%</b>	<b>100.00%</b>

## INCOME ASSETS

NZ CASH		
ISSUER	CREDIT	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%
Industrial and Commercial Bank of China	A1	2.42%
Bank of China	A1	3.61%
Toyota Finance	A1+	3.01%
Port of Tauranga	A2	2.39%
<b>TOTAL</b>		<b>97.66%</b>

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



# Key personnel

Position	Investment Committee Chair	Chief Executive	Head of Investments
<b>Name</b>	Fiona Oliver	Bob Smith	Theresa Egan
<b>Time in position</b>	3 years 11 months	4 years 6 months	8 months
<b>Previous Position</b>	Committee member	Consultant to the Chief Executive	Investment Manager
<b>Time in previous position</b>	4 years 10 months	12 months	5 years
<b>Employer</b>	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 30 June 2018, a copy of which is available on request to Public Trust.

## Contact information

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