

Public Trust Investment Service Diversified Funds

Funds Update

For the quarter ended 30 September 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.

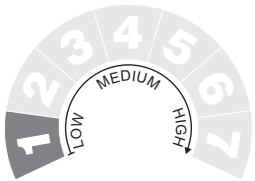
The Funds referred to in this Quarterly Update are used by Public Trust as investment options where it is acting as trustee, co-trustee or attorney of an estate, trust or non-consultable agency.

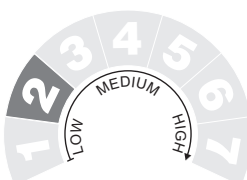
The Funds are not open to members of the public.

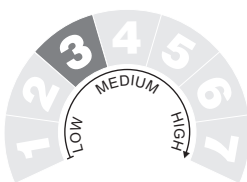
Any reference to us, we or our, refers to Public Trust.

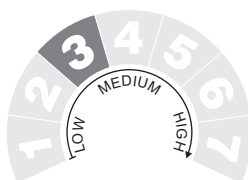
Description of the funds

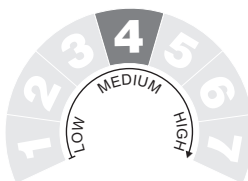
There are seven options offered in the Public Trust Investment Service Diversified Funds. The options referred to in this document are used by Public Trust as investment options in situations where it is acting as trustee, co-trustee or attorney of an estate, trust or non-consultable agency. The Funds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

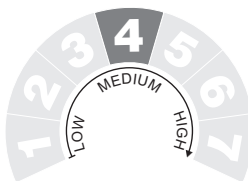
Cash Fund	
Aims to produce low risk returns by investing in short-term bank deposits and fixed interest securities.	
	Risk indicator
Management fee	0.40% of your balance each year
Third party management fees	Nil
Entry/exit spread	Nil
Total value of the Fund	\$10.94m
Unit price (redemption)	1.0568
Fund start date	28 July 2014

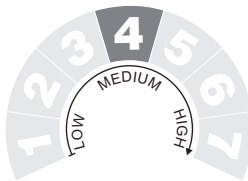
Defensive Fund	
Aims to produce stable returns with low capital growth and low risk over the medium-term by investing 80% in diversified income assets (cash and bonds) and 20% in diversified growth assets (shares and listed property).	
	Risk indicator
Management fee	1.05% of your balance each year
Third party management fees	0.03% of your balance each year
Entry/exit spread	+/- 0.13%
Total value of the Fund	\$81.76m
Unit price (redemption)	1.1143
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

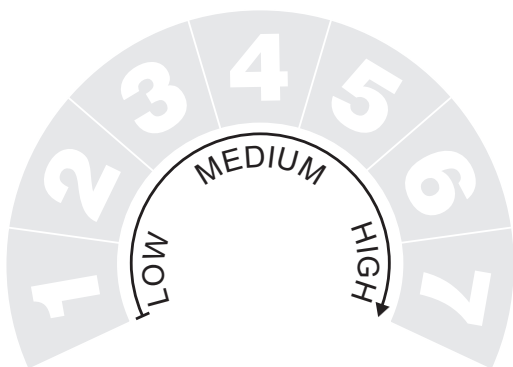
Balanced Fund	
Aims to produce long-term capital growth with medium levels of risk by investing 60% in diversified growth assets (shares and listed property) and 40% in diversified income assets (cash and bonds).	
	Risk indicator
Management fee	1.20% of your balance each year
Third party management fees	0.04% of your balance each year
Entry/exit spread	+/- 0.26%
Total value of the Fund	\$233.28m
Unit price (redemption)	1.1449
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	\$37.73m
Unit price (redemption)	1.1334
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 monthly 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*	3.1%	-1.5%
NZ shares	7.3%	33.2%
Australian shares*	5.8%	8.5%
NZ listed property	2.3%	21.2%

* In NZ Dollar terms

	Returns	
	Quarter	Year
NZ bonds	0.9%	6.6%
Cash	0.6%	2.7%
NZ Dollar**	1.2%	10.7%

** In trade weighted index terms

Commentary

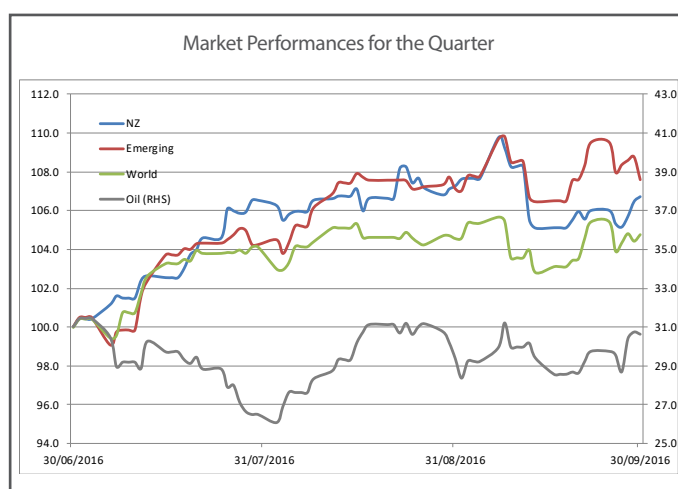
The quarter was characterised by a sharp drop in market volatility after the Brexit induced wild swings of the previous quarter.

The Northern Hemisphere summer holiday season is traditionally associated with quiet financial markets and so it generally proved this quarter. Another feature of the quarter was increasing speculation that many countries were coming to the end of what they could achieve in terms of creating sustainable economic growth through the use of monetary policy alone. It has been nearly 10 years since the Global Financial Crisis of 2007-09 and yet, despite super low interest rates and other unconventional monetary policy measures, the world economy is still generally growing below potential.

Attention is now turning to the possibility of fiscal policy being used to try and stimulate growth. This is particularly the case in Europe where in response to the Greek debt crisis in 2011-12 many governments cut back on spending in order to improve their debt position but in doing so partially offset some of the stimulus being created by the European Central Bank (ECB) through its easing of monetary policy.

The speculation appeared to gain traction from decisions by the ECB, Bank of Japan and Bank of China not to cut their official cash rates further into negative territory. Some central banks (UK, Australia and NZ) did cut their official cash rates further but these rates were still above zero.

The upshot of all this is that there will be increasing divergence between the monetary and fiscal policies of individual countries and in turn the performance of their respective financial markets. The most notable example is in the US where the Federal Reserve Board is likely to raise its official cash rate by the end of the year.



Source: Thomson Reuters, Public Trust

The Reserve Bank of New Zealand (RBNZ) is faced with a unique challenge. Economic growth is healthy, driven by factors such as record migration and tourist visitors plus strong residential construction. House prices are rising sharply, particularly in Auckland. Despite all this inflation is virtually nil as the strong New Zealand Dollar, combined with weak commodity prices, is pushing down inflation of good and services we import - offsetting rising inflation of things like rents and wages. The RBNZ cut the Official Cash Rate by 0.25% in August to a record low of 2.00% and looks set to do the same again in November. To try and prevent house prices rising even faster and increasing financial stability risk, the RBNZ tightened controls around bank lending.

The outlook for the world economy and financial markets remains clouded. While super low interest rates have provided a significant boost to sharemarket's, this effect is now waning as many central banks elect not to cut rates further. While fiscal policy can potentially provide a useful new source of stimulus to economies, it is too soon to determine how willing individual governments will be to take this step and how effective they will be in doing so.

The quarter was characterised by a sharp drop in market volatility after the Brexit induced wild swings of the previous quarter.

How have the Funds performed?

	Past Quarter	1 Year	Annualised since inception
Cash Fund	0.58%	2.17%	2.57%
Defensive Fund	1.78%	5.23%	5.09%
Conservative Portfolio	2.33%	6.12%	5.58%
Moderate Portfolio	2.88%	7.00%	6.06%
Balanced Fund	3.25%	7.59%	6.38%
Balanced Growth Portfolio	3.64%	7.82%	6.15%
Growth Fund	4.03%	8.06%	5.92%

Note on returns

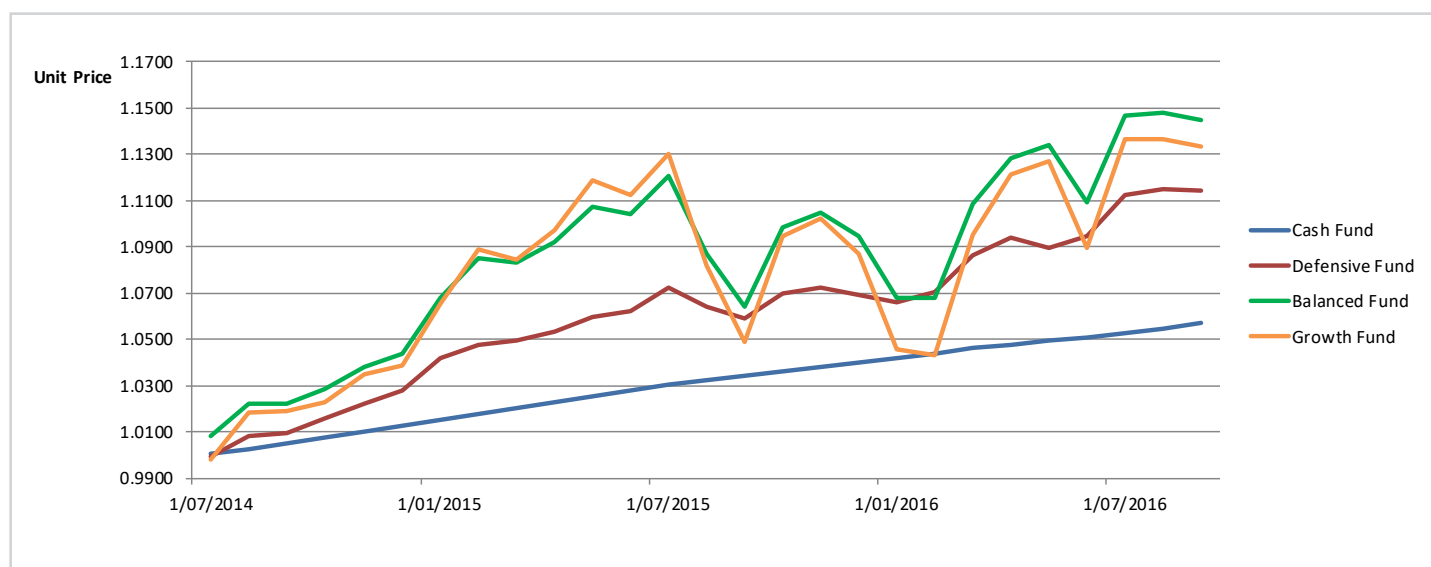
Fund returns are after deductions for charges, but before tax.

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

Commentary on performance

Fund returns for the quarter were well up on the previous quarter, reflecting little in the way of adverse shocks this period. While there has been significant volatility in the unit price of the Balanced and Growth Funds over the past year Fund returns have been above our long term expected level.

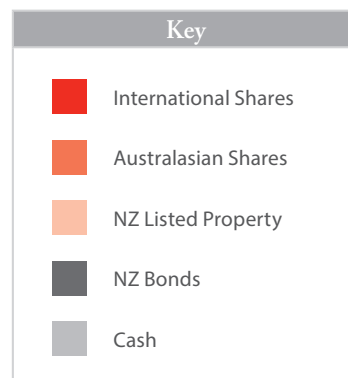
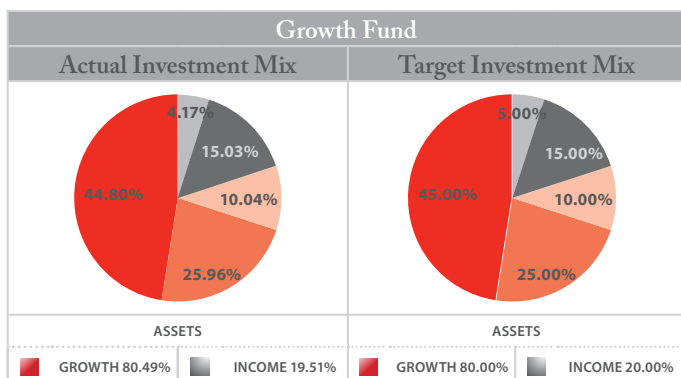
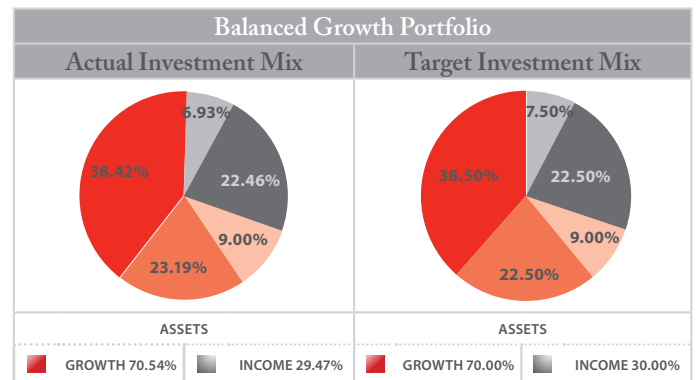
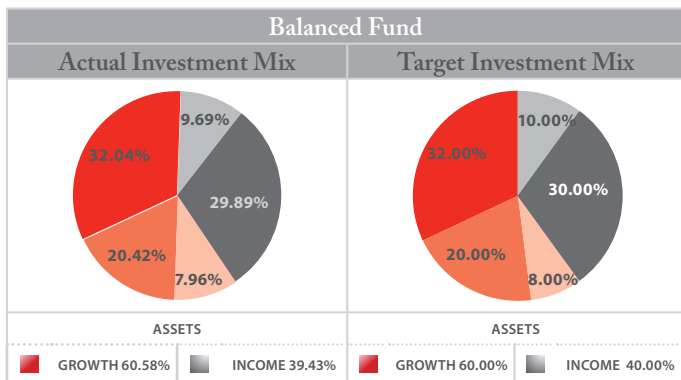
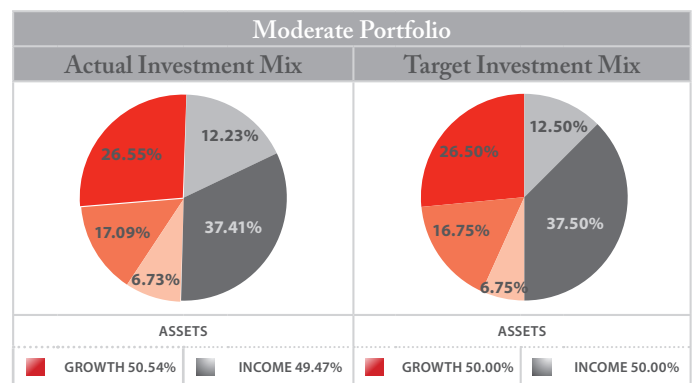
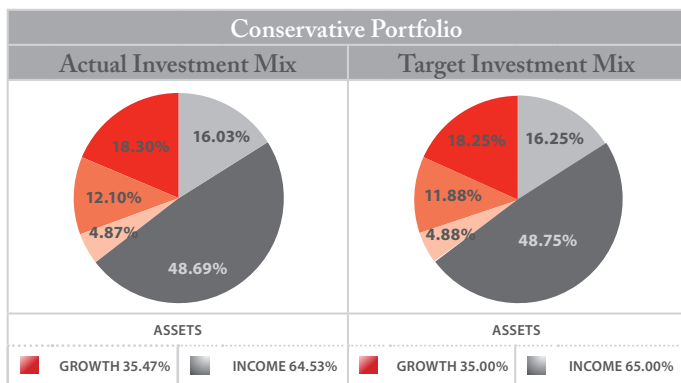
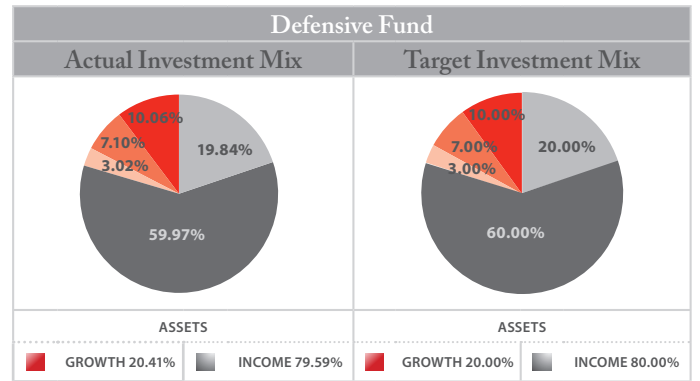
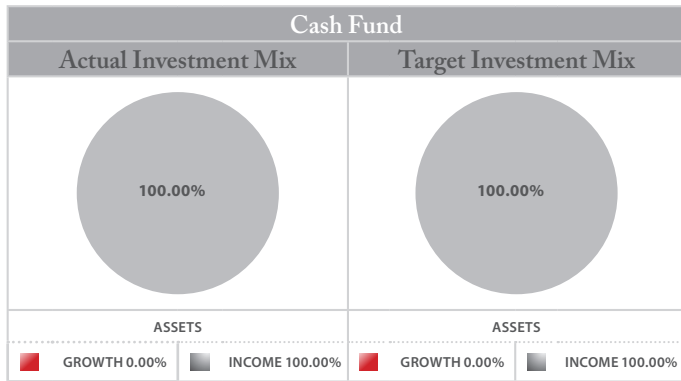
The month end unit price series for each of the Funds is outlined in the chart below. It is notable that since inception the diversified Funds have significantly outperformed the Cash Fund.



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	1.58%
Microsoft	United States	1.16%
Exxon Mobil	United States	0.98%
Johnson & Johnson	United States	0.87%
Amazon	United States	0.84%
Facebook	United States	0.79%
General Electric	United States	0.78%
Nestle	Switzerland	0.68%
AT&T	United States	0.68%
Wells Fargo	United States	0.67%
TOTAL		9.04%

AUSTRALASIAN SHARES

COMPANY	COUNTRY	WEIGHTING
Fletcher Building	New Zealand	6.74%
Auckland Intl Airport	New Zealand	6.26%
Spark New Zealand	New Zealand	6.10%
Fisher & Paykel Healthcare	New Zealand	5.21%
Ryman Healthcare Group	New Zealand	4.07%
Contact Energy	New Zealand	3.30%
Z Energy	New Zealand	3.06%
Meridian Energy	New Zealand	2.93%
SkyCity Entertainment	New Zealand	2.77%
Westpac Banking	Australia	2.53%
TOTAL		42.97%

NZ LISTED PROPERTY

COMPANY	WEIGHTING
Precinct Property	14.73%
Vital Healthcare	14.41%
Kiwi Property Group	14.31%
Property For Industry	14.31%
Stride Property	14.17%
Argosy Property	14.15%
Goodman Property	13.92%
TOTAL	100.01%

INCOME ASSETS

NZ BONDS

ISSUER	CREDIT RATING	WEIGHTING
NZ Government	AA+	35.26%
NZ Local Government Funding Agency	AA+	16.61%
BNZ	AA-	5.58%
ASB	AA-	5.47%
Westpac	AA-	5.10%
ANZ	AA-	4.87%
Auckland Council	AA	4.33%
Contact Energy	BBB	2.52%
Fonterra	A-	2.52%
Rabobank	A+	2.32%
TOTAL		84.57%

NZ CASH

ISSUER	CREDIT RATING	WEIGHTING
BNZ	A1+	18.51%
ANZ	A1+	17.48%
Westpac	A1+	17.04%
Bank of China	A1	8.23%
Kiwibank	A1	8.21%
ASB	A1+	6.25%
Industrial and Commercial Bank of China	A1	6.12%
Retail Financial Service	A1+	4.09%
Toyota Finance	A1+	4.09%
BNP Paribas	A1+	3.14%
TOTAL		93.16%

Key personnel

Position	Investment Committee Chair	Chief Executive	Head of Investments
Name	Fiona Oliver	Bob Smith	Colin Thomson
Time in position	2 years 2 months	2 years 9 months	9 years 5 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 October 2016, a copy of which is available on request to Public Trust.

Contact information

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