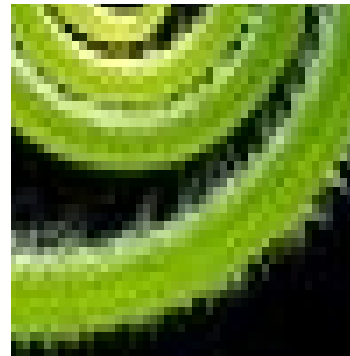
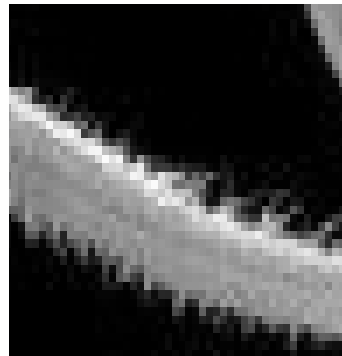
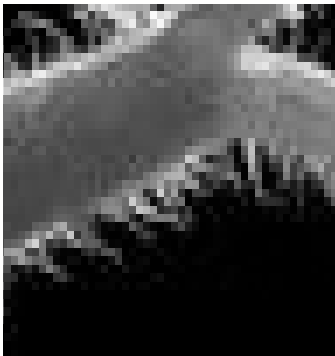
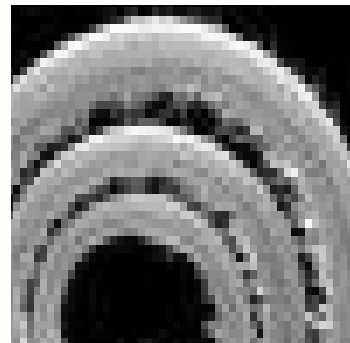
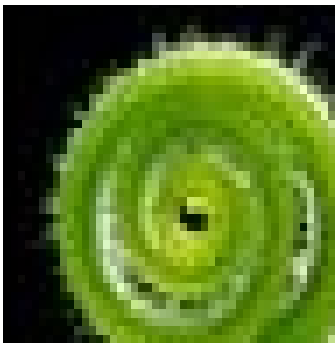


THE

RETIRE

FUND



INVESTMENT
REPORT

FOR THE
QUARTER TO
31 DECEMBER
2010

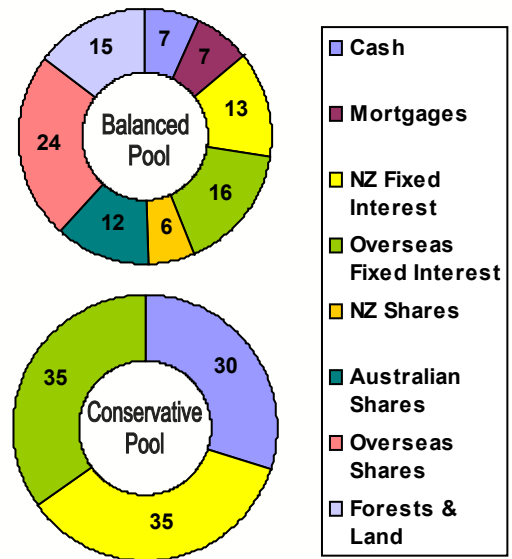
INVESTMENT RETURNS



All figures in this report are provisional.

| INVESTMENT TYPE | Gross returns for the December quarter | | Gross returns for the 9 months to December | |
|-------------------------|--|-------------------|--|-------------------|
| | Balanced Pool | Conservative Pool | Balanced Pool | Conservative Pool |
| | % | | % | |
| Cash and Short Term | 1.0 | 0.9 | 2.3 | 2.4 |
| Mortgages | 1.6 | | 4.5 | |
| NZ Fixed Interest | 1.2 | 1.2 | 5.3 | 5.0 |
| Overseas Fixed Interest | -0.2 | -0.2 | 6.1 | 6.1 |
| NZ Shares | 7.5 | | 6.1 | |
| Australian Shares | 5.7 | | 3.5 | |
| Overseas Shares | 5.0 | | 4.1 | |
| Forests and Land | 6.7 | | 20.8 | |
| TOTAL | 3.6 | 0.6 | 6.7 | 4.6 |

Average investment asset percentages for the December 2010 quarter



Returns are before the deduction of expenses and tax.

OVERVIEW



GROSS RETURNS

Returns For The Quarter were: **Balanced Pool 3.6%** **Conservative Pool 0.6%**

For the Balanced Pool there were modest returns from Cash and Fixed Interest and strong returns from Shares and Forests.

The sectors that made the best returns were New Zealand shares, Forests and Land, and Australian shares.

Investment Markets - For the Quarter—Financial & Economic Issues Unusual Uncertainty

Although it was not quoted, President George Bush's statement in September 2008 "If money isn't loosened up, this sucker could go down", looked to be the basis for the Federal Reserve to bring in more quantitative easing of money (QE II) on 3 November and to buy back longer dated USA bonds.

Global markets reacted accordingly. It meant that the world's largest economy, USA, was not going to introduce austerity measures and consumers could expect to spend more and deflation would recede as a concern in the Western World.

Elsewhere, in the European countries, UK was being forced to save and Europe was caught with the need to ask for help to bail out a mortified Ireland, with the expectation that Portugal or even Spain with its 22% unemployment rate and weak banking system might need to follow. China the "White Knight", bought the biggest percentage of the bailout bonds.

Japan suffered a negative blessing that even though its economy was steady, as a consequence its currency strengthened, to a point not seen compared with the USD for 15 years. Then anxiety over European debt and North Korean belligerence caused investors to rush back to a safe currency – America's!

Contrariwise, the developing countries were running to their own drums, their economies improving or achieving strongly, many of which were gaining from high commodity and resource prices but as a consequence currencies rose as did inflation, China especially.

Australia in particular and New Zealand benefited from Asian countries' strength and high commodity and resource prices.



SECTOR COMMENTARY

Returns are gross unless otherwise stated.

Cash

The RBNZ left the Official Cash Rate at the present stimulatory level of 3% in January. In comparison, the Australian Cash Rate was increased to 4.75% in November. Almost all major economic blocks held interest rates at record lows e.g. Europe 1.0%, UK 0.5%, USA 0.25% and Japan 0.1%.

Residential Mortgages

The Pension Board's floating rate remained at 6.20% and the three year fixed rate dropped slightly to 6.95%.

NZ Fixed Interest

The interest rate on an 11 year government bond rose from 5.01% to 5.09% in 3 months, which meant that the portfolio made capital losses although there was a reasonable income gain with a net modest positive result.

Overseas Fixed Interest

Ten year Government Bond yields in all major markets bounced up strongly. The USA's moves were proportionately the largest. The Board's Bond Portfolio delivered a negative result over the quarter, mainly due to the Board's two managers holding a lot of long bonds, especially in the USA and Europe.

When interest rates increase on bonds that are held, this results in a capital loss.

Australian and New Zealand Equities (ANZAC)

Within the ANZAC Equities sector, approximately 34% of investments were in New Zealand and 66% in Australia. New Zealand returned 7.5% and Australia 5.7% after hedging into New Zealand dollars. Both returns were better than their benchmarks.

New Zealand Companies

Best – Delegats, NZ Refining and Tower, which gained 24%, 22% and 17% respectively.

Australian Companies

Best – Tower Australia, BHP Billiton and Rio Tinto, which gained 69%, 16% and 11% respectively.

Overseas Equities

The Board holds an investment in AMP Responsible Investment Leaders' Fund and as well manages its own portfolio. This is to ensure that most of the investments can be screened against the Responsible Investment Policy.

Like the September quarter, the strong return from overseas markets was negatively impacted upon by a rising New Zealand dollar against all geographic sectors where the Board invests i.e. Canada, Europe, Far East, Japan, UK, USA. Fortunately currency hedging enabled The Retire Fund to capture the majority of the returns.

Forests

There were good returns due to above valuation returns from the 30 year old block being cut at Hapua. Log prices are continuing to rise – pulp about 50% above what it was mid-year and its 1993 high. It was good to see NONE of the Hapua logs have been sold as low value pulp – all were exported as high value logs.

Food For Thought

Income Disparity

Data seems to show the disparity between rich and poor incomes in developed countries is increasing. Stable political systems and democracy are posited to be outcomes of personal incomes which reflect endeavour with only a moderate gap between the incomes of the rich and poor in a country.





MARCH QUARTER and beyond

WORLD OVERVIEW

Two thousand and eleven has the potential to be a vexing year and like the Curate's egg – “good in parts”.

The Equity and Resource/Commodity markets have started bullishly. In the USA, QE II (quantitative easing round two) has enabled money to flow in those directions, even if not into the pockets of the USA homeowners who are not seeing their house prices rise but their costs of food and petrol are, while eyeballing 10% unemployment.

There doesn't seem to be quite the love affair with Emerging Markets, particularly China, that there was.

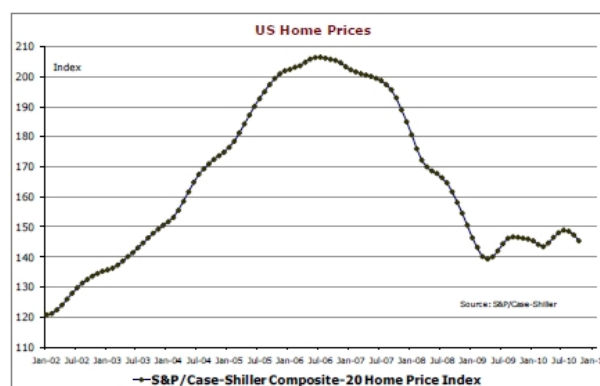
Sovereign bonds should be shunned evidently (meaning they are expected to make negative returns, and some equity markets can be expected to produce quite different returns from others).

Expect:

- Economists say “expect grumpy growth” over the year.
- New Zealand should avoid technical recession this quarter.
- Equity sectors favoured e.g. tech and cyclicals.
- Investors to be wary of Sovereign bonds but choose corporate debt.
- Resource and commodity prices to remain high with the potential for a serious bubble e.g. cotton has risen 19% year to date of writing. Food price rises should be particularly difficult for satellite countries in Europe.
- Consumers unlikely to be positive until house prices improve. This applies to United Kingdom, Australia and New Zealand also (see graph of USA). Foreign exchange markets may continue to be volatile and the weakening US dollar is viewed with some alarm.
- An increasing gold price is a vote against the paper currencies and this trend is expected to continue.
- Cotton has risen 30% to the date of writing (18 February).

This Quarter:

- World economy to gain modestly. Stocks to perform, bond yields to move upwards, housing values stabilise.



Evans & Partners, Morning Report, 29 Dec 2010

Don't Wish For But May Get:

- Unrest in some geo-political areas e.g. Egypt and elsewhere in the Middle East which will support the USD, gold and oil price.
- Concern over China's ability to flex its muscle including with military strength and call the shots on the world stage. The USA have become tied up with military and financial obligations, finds it cannot resist Chinese pressure.
- World weather settling into violent and irregular patterns not seen in our life times putting up prices of food and maybe oil as well as disrupting the global economies generally.
- Banks have avoided major regulation changes and could lead us into the next burst bubble e.g. credit bonds and commodities.



Asset Strategy for The Retire Fund for the March quarter 2011

Balanced Pool

The Investment Committee takes an optimistically cautious view of share market performance.

The growth assets are all expected to increase towards the SIPO benchmark of around 60%. The increase will be in Shares.

Currency hedging should be around 50% on Australian Shares and 50%-60% on Overseas Shares. Overseas Fixed Interest is 100% currency hedged.

Conservative Pool

Investments will be made close to SIPO benchmark, i.e. 30% Cash, 35% NZ Fixed Interest and 35% Overseas Fixed Interest which is fully currency hedged.

Balanced Pool

Growth Assets 60%
Income Assets 40%

Conservative Pool

Growth Assets 0%
Income Assets 100%

(Mrs) Gillian B H Robertson
INVESTMENT MANAGER
February 2011

The Retire Fund

Reports issued by:
The New Zealand Anglican Church Pension Board

P O Box 12 287
Wellington 6144

Phone: 04 473 9369
Fax: 04 473 9991

Email: Retire@acpb.org.nz

