

THE

RETIRE

FUND



INVESTMENT
REPORT

FOR THE
QUARTER TO
30 JUNE
2011

INVESTMENT RETURNS

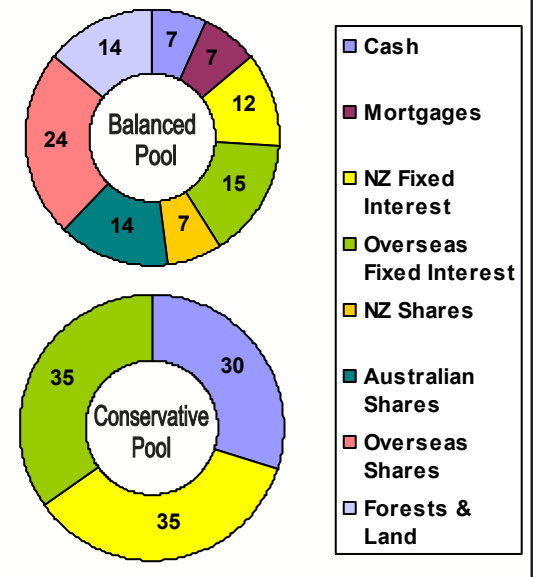


All figures in this report are provisional.

| INVESTMENT TYPE | Gross returns for the June quarter % | |
|-------------------------|--------------------------------------|-------------------|
| | Balanced Pool | Conservative Pool |
| Cash and Short Term | 0.6 | 0.6 |
| Mortgages | 1.4 | |
| NZ Fixed Interest | 2.4 | 2.4 |
| Overseas Fixed Interest | 2.0 | 2.1 |
| NZ Shares | 1.1 | |
| Australian Shares | -7.1 | |
| Overseas Shares | -2.3 | |
| Forests and Land | -0.8 | |
| TOTAL | -0.9 | 1.7 |

Returns are before the deduction of expenses and tax.

Average investment asset percentages for the June 2011 quarter



OVERVIEW



GROSS RETURNS - Returns For The Quarter were:

Balanced Pool **-0.9%**
Conservative Pool **+1.7%**

For the Balanced Pool the best returns came from NZ and Overseas Fixed Interest and Mortgages. The growth assets i.e. Shares and Forests, made negative returns. As the Conservative Pool holds no growth assets, it made a reasonable positive return.

Investment Markets - For the June Quarter - Financial & Economic Issues

World Overview

- The second quarter of 2011 was a roller coaster of :-
 - ◊ “Risk on” when the economy appeared to be improving or when money was being freed up and share markets, interest rates, commodity prices and commodity country exchange rates all rose.
 - ◊ “Risk off” when Spain, Ireland or Greece faced default possibilities and the USA was unable to balance its books leading to a retreat from shares to bonds, a rush into the US dollar and out of commodities. This schizophrenic behaviour left gold the eventual winner.
- Global economic growth struggled.
- The major financial markets continued to suffer volatility due to uncertainty.
- US economic recovery continued to be restrained by a stagnant housing market.
- European markets tumbled as the debt crisis spread throughout their countries. Greece’s sovereign debt was downgraded to junk status.
- China and Brazil led a slowdown in emerging economies as exports to developed countries lost steam and their Governments continued to tighten monetary policy to curb inflation.
- Over the quarter, bearish sentiment pushed the major equity indices lower. All regions in the developed world produced negative equity performances in their own currencies.
- Yields of Government and Corporate bonds in developed markets fell dramatically as risk aversion heightened and a flight from risky assets continued. US and German treasury bonds were viewed as safe haven investments as fears of an imminent melt down of the European financial system heightened.

Global manufacturing and services



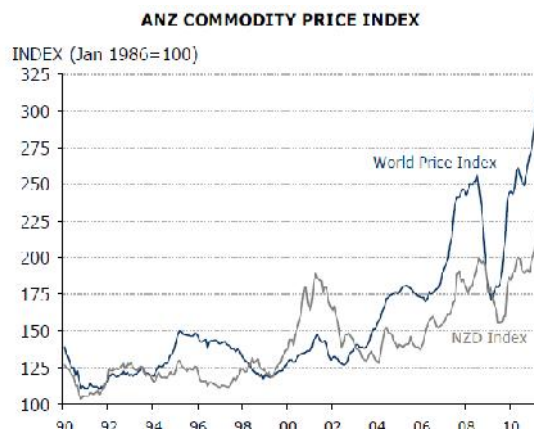
OVERVIEW *continued*



New Zealand Overview

- Key New Zealand economic data released during the June quarter was really positive, highlighting the underlying resilience and improving growth momentum.
- Given the economic disruption of the Christchurch earthquakes which affected many firms and households adversely, the RBNZ left the OCR at 2.5% in the June quarter review. However, Reserve Bank Governor Alan Bollard signalled that the interest rate may start to rise in December as underlying inflation was expected to rise.
- The NZ dollar lifted in value relative to all major currencies and reached a new post-float high of 0.829 against the US dollar. On a trade-weighted basis the exchange rate rose 7.0% over the quarter.
- New Zealand commodity prices slipped from a record high due to the kiwi dollar continuing to strengthen. The ANZ NZ dollar Commodity Price Index dropped 7.8% in the June quarter (Graph2).

Graph 2



SECTOR COMMENTARY



SECTOR COMMENTARY

Returns are gross unless otherwise stated.

Cash

The RBNZ left the OCR on hold at 2.5% in the June quarter review, given the economic disruption of the Christchurch earthquakes with many firms and households adversely affected. However, Reserve Bank Governor Alan Bollard signalled that the interest rate may start to rise in December as underlying inflation is expected to rise. Bank of Australia kept its cash rate unchanged at 4.75% as growth stalled.

The European Central Bank (ECB) changed its monetary policy for the first time since May 2009, raising interest rates by 0.25% to 1.25% to clamp down on inflation while most other major economic blocks held their rates at a record low. (USA 0.25%, UK 0.5% and Japan 0.1%).

Residential Mortgages

The Pension Board dropped the floating rate by 50 bps to 5.70% but held the three year fixed rate at 6.75%.

NZ Fixed Interest

The interest rate on the 10 year NZ Government Bond fell 59 bps to 5.07%. This resulted in capital gains as well as returns from interest. The composition of the Fixed Interest and Cash sector bonds by class of security at the end of the quarter was: Government 15%, Local Government 17%, SOE 9%, NZ Corporate bonds 9%, Banks 37%, Foreign issuers 13%





SECTOR COMMENTARY *Continued*

Overseas Fixed Interest

Yields of Government and Corporate bonds in developed markets fell dramatically as risk aversion heightened. In the ten year Treasury markets, the ECB (European Central Bank) falls were proportionally the largest and finished at 3.0%. The USA's rates decreased to 3.2% and Australia was flat at 5.3%.

Australian and New Zealand Equities (ANZAC)

Within the ANZAC Equities sector, approximately 33% of investments were in New Zealand and 67% in Australia. New Zealand returned 1.1% and Australia -7.1% after hedging into New Zealand dollars.

New Zealand Companies

Best – Telecom, Ryman Healthcare and Restaurant Brands, which gained 25%, 18% and 14% respectively.

Australian Companies

Best – Woolworths, AGL Energy and Commonwealth Bank of Australia, which gained 0.7% and lost -0.6% and -1.3% 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 Responsible Investment Policy.

The weak returns from the overseas equity markets translated into negative New Zealand dollar returns, because the NZD rose considerably. Currency hedging therefore improved these returns.

Forests

Overall forest values reduced. Increases due to forest growth and fuel price decreases were overrun by falls in the log prices mainly because of China also accessing logs from Russia and North America in the Northern summer.

Food For Thought

Manufacturing historically has underpinned developed economies and manufacturing has moved east, notably except for Germany which is performing strongly. Economies which have been fashionably based on services and financial engineering are struggling to gain traction while using "more of the same" e.g. by printing money or by cutting services.

Developed economies are woefully short of workers with maths, science and technical skills, especially in New Zealand, because there was the assumption that in the affluence of the end of the twentieth century, such skills were not needed. "Employment based on asset price appreciation/finance as opposed to manufacturing, can no longer be sustained."

Bill Gross PIMCO, July 2011





September Quarter and Beyond

World Overview

- The world appears to be caught in a water tunnel, the end of which is increasingly difficult to see.
- QEII has not delivered the hoped for economic stimulus in the USA.
- The USA budget has been approved but is unable to proceed until the legislature agrees to raise the debt ceiling level above US \$14tr. How much policy the Democrats will have to sacrifice is being negotiated.
- QEIII is not expected. (*Quantitative easing includes the US Treasury issuing bonds and the Federal Reserve buying the securities.*)
- A downgrade of USA debt from AAA seems unthinkable but is threatened by Standard and Poor's.
- With American house prices down 33%, it is said that property prices have fallen more than in The Great Depression.
- There is some positive data from the non financial and non farming sector in America. Leverage has declined and there are strong cash reserves in companies.
- Europe seems to be a multiplying basket case of countries. The PIIGS are back in the limelight (Portugal, Ireland, Italy, Greece and Spain) all reputedly in trouble with debt overload along with many European banks. Germany, the ECB and the IMF cannot prop up all of these countries. In the UK there are some positive financial and economic signals.
- High youth unemployment in developed economies is a concern.
- Asian countries are expressing their unease about the western world financial turmoil negatively affecting them.
- The gold price is ever rising whereas oil prices have softened recently.
- Middle East and North African politics have fallen off the radar.

Asset Strategy for the September quarter 2011

Balanced Pool

The Investment Committee takes a cautious views of the share markets and bond markets at present.

In the Balanced Pool growth assets should be held below their SIPO benchmark of 60%.

Conservative Pool

Investments will be held close to SIPO benchmark, i.e. 30% Cash, 35% NZ Fixed Interest and 35% Overseas Fixed Interest which is 100% currency hedged.

Currency Hedging

Currency hedging should be between 45% to 65% on Australian Shares and 55% and 70% for Overseas Equities. Overseas Fixed Interest is 100% currency hedged.

Balanced Pool

| | |
|---------------|-------|
| Growth Assets | 57.5% |
| Income Assets | 42.5% |

Conservative Pool

| | |
|---------------|--------|
| Growth Assets | 0.0% |
| Income Assets | 100.0% |

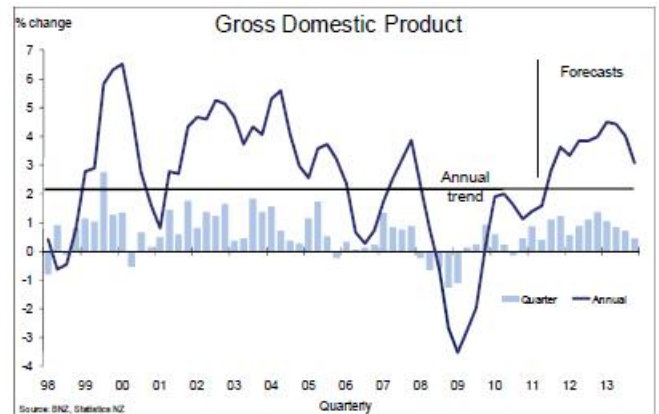
Australia

Australia is not looking confident. They have had a seldom seen negative GDP quarter in March and although budgetary provisions are generous, their economy, including housing, is still weak and will not be aided by the announcement of a carbon tax.

New Zealand

The New Zealand economy does seem amazingly sturdy.

- The March quarter GDP of 0.8% or 4% annualised, was a big surprise (see graph).



BNZ – NZ At a Glance, 22 July 2011

- There are stories of resilient Christchurchers.
- The NZD is in danger of outstripping the AUD for strength.
- There is some upward movement of house prices in parts of the country.
- Wood prices are likely to stay weak over the northern summer. New Zealand's carbon credit values are under pressure from the weakness in Europe which in reality is the only other part of the world which needs to buy units compliant with the Kyoto Protocol specifications.
- New Zealand is suffering again from talent exiting the country and therefore lack of skills. Youth unemployment is recorded as the highest in the OECD.
- Our ever strengthening dollar would imply that investors are relatively confident about our economy and political and economic regime.
- Inflation (C.P.I.) is moving higher and faster than anticipated – food inflation particularly.

(Mrs) Gillian B H Robertson

INVESTMENT MANAGER
July 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

Email: Retire@acpb.org.nz