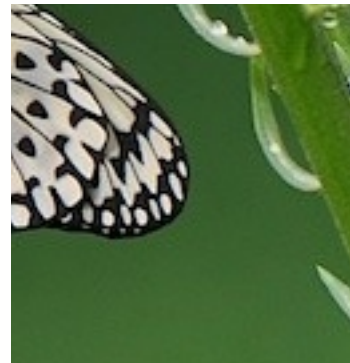
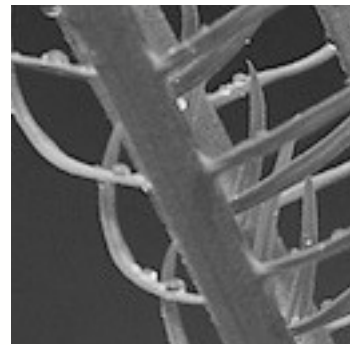
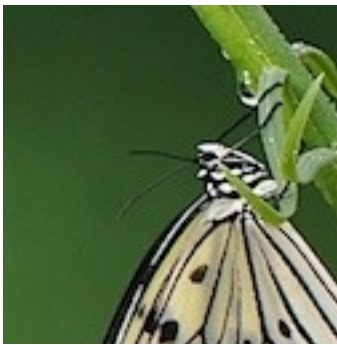


THE

RETIRE

FUND



INVESTMENT  
REPORT

FOR THE  
QUARTER TO  
31 MARCH  
2011

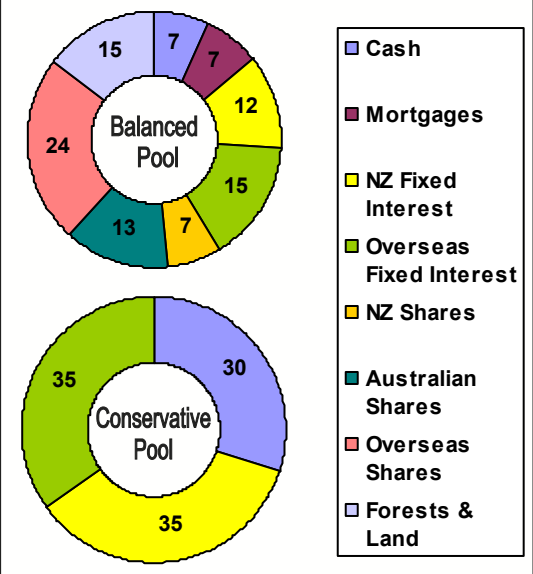
# INVESTMENT RETURNS



All figures in this report are provisional.

INVESTMENT TYPE	Gross returns for the March quarter		Gross returns for the 12 months to March	
	Balanced Pool	Conservative Pool	Balanced Pool	Conservative Pool
Cash and Short Term	0.5	0.5	2.9	2.8
Mortgages	1.9		6.4	
NZ Fixed Interest	2.9	2.9	8.2	8.1
Overseas Fixed Interest	1.7	1.7	7.8	7.9
NZ Shares	6.4		13.1	
Australian Shares	4.4		8.1	
Overseas Shares	3.8		8.0	
Forests and Land	-1.0		19.9	
<b>TOTAL</b>	<b>2.5</b>	<b>1.7</b>	<b>9.4</b>	<b>6.4</b>

Average investment asset percentages for the March 2011 quarter



Returns are before the deduction of expenses and tax.

# OVERVIEW



## GROSS RETURNS

Returns For The Quarter were:

Balanced Pool	2.5%
Conservative Pool	1.7%

For Balanced Pool there was strong returns from NZ shares as well as good returns from Australian and overseas shares. Forests and Land were the only sector that made a negative return. This resulted overall in reasonable returns for the quarter and good returns for the year for both the Balanced and Conservative Pools.

## Investment Markets - For the March Quarter - Financial & Economic Issues

### World Overview

In the first quarter of 2011 the unresolved financial hangover of sovereign debt was sidelined in the Western World by better performing economies and companies, a recovery in consumer sentiment, and by the dramatic political and natural events which took centre stage in February and March. There was less emphasis on how countries were to balance their books and to cut government spending, but fair levels of taxation and support for the poorer sections of the community (including in New Zealand) were still unresolved issues. Some cautioned that trade by itself could not be the means to recovery for all countries. Excessive directors' and executives' fees, especially in the banking sector, remained a problem.

Instead of dealing with the above more fundamental problems the focus was on the Japanese earthquake, tsunami and the risks of nuclear contamination and the political unrest in the Middle East. The Western World does not begin to understand what the likely outcomes will be of the latter, especially for relationships between them and the rising-in-prominence Muslim states.

The post-GFC financial hangovers have yet to be dealt with, but distracted by the big news stories of the day, markets were able to mostly progress positively.

Worldwide economic data was mixed, but generally pointed to continued economic recovery.

# OVERVIEW continued



## New Zealand Overview

Our country was hit by an earthquake in Christchurch on 22 February which resulted in our second highest loss of life from earthquakes. We had assumed that aftershocks would not cause as much damage as the first quake but instead there was greater damage to people, infrastructure, and buildings from the aftershock. The resilience of the people of Christchurch was tested. The Pike River tragedy was pushed aside and there was more focus on community and even God, and less on larger economic realities.

The economy avoided, by a whisker, two quarters of negative growth and a technical recession.

The people of New Zealand were told the country was borrowing at a rate of \$300 million or more per week, partly because of the Christchurch earthquakes and partly because the economy was not picking up. House prices were flat but inflation rose 4.5% for the year to March, but seemed even

higher. Wages were perceived to be lagging and budgeting services were subject to increasing demand. Migration to Australia increased again as people looked for better pay and a new life.

The saga of the failed finance companies and developers continued, along with questions about their legal accountability. New Zealand investors seemed to take a remarkably passive view of this vanished wealth.

The amazingly good news for New Zealand was that despite our strong currency, all our commodities appeared to be achieving great prices across all sectors: food related, wool, coal, gold and forests. Our plantation forests were being cut at an unprecedented rate. The knowledge economy took a back seat, along with our stock exchange, which in its defence did perform creditably in the last quarter. New Zealand was functioning relatively well doing what it does best, providing commodities and resources for world consumption.

# SECTOR COMMENTARY



## SECTOR COMMENTARY

Returns are gross unless otherwise stated.

### Cash

In the wake of the February earthquake the RBNZ cut the Official Cash Rate to 2.5% to shore up confidence. Official interest rates elsewhere around the world stayed at record lows e.g. Europe 1.0%, USA 0.25% and Japan 0.1%. The Australian cash rate was left unchanged at 4.75%.

### Residential Mortgages

The Pension Board's floating rate decreased to 6.20% and the three-year fixed rate to 6.75%.

### NZ Fixed Interest

The interest rate on the 10 year NZ Government Bond fell to 5.66%. The portfolio made good gains.

### Overseas Fixed Interest

Ten year Government Bond yields in all major markets rose except for Australia. A rise generates capital losses. Notwithstanding, the Board's Overseas Fixed Interest Managers performed well and along with the Board's currency hedging there was out-performance.

### Australian and New Zealand Equities (ANZAC)

Within the ANZAC Equities sector, approximately 35% of investments were in New Zealand and 65% in Australia. New Zealand returned 6.4% and Australia 4.4% after hedging into New Zealand dollars. Both returns were better than their benchmarks.

### New Zealand Companies

**Best** – Fletcher Building, Mainfreight and, NZ Refining, which gained 20%, 14% and 13% respectively.

### Australian Companies

**Best** – United Group, Woodside Petroleum and Westpac, which gained 15%, 13% and 13% 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 our Responsible Investment Policy.

The strong return from the Overseas Equity markets, also translated into strong NZD returns, because the New Zealand dollar fell even more than the USD. Currency hedging in place therefore detracted from these returns.

### Forests

Forest values benefited from increased log prices and forest growth, but increased forest harvesting costs and the sale of carbon credits reduced values.

## Food For Thought

### The Jobless Generation of Youth

*The OECD data shows New Zealand's youth unemployment rate at 18%, the same as the OECD average. Unemployment has now been high over several years.*

*What is New Zealand doing to forestall a "lost generation" disconnected from the labour market with progressive loss of skills and motivation?*

Sources: IMF, OECD, Neville Bennett

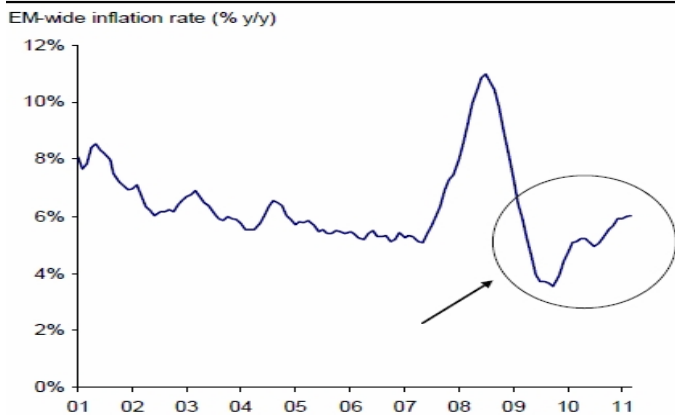


## June Quarter and Beyond

### World Overview

- Markets in USA are comfortable with company earnings and forecast low interest rates. USA seems to be helping itself by encouraging its dollar to weaken. Spending cuts of US\$40 billion to the USA budget has not fazed the market.
- The European Union is not so confident. German markets look the most positive, but many others are uncertain. Portugal has received funding support of around EU80 billion. The UK is suffering from austerity measures.
- Emerging markets are no longer the top favourites, partly because of their rise in inflation rates (Graph – EM-wide inflation). China's growth seems to have picked up and is expected to be strong.

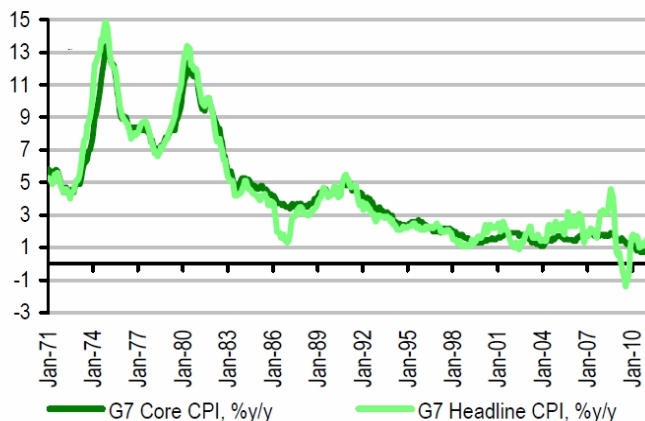
### EM-wide inflation



Source: UBS Emerging Economic Comment

- The IMF expects global growth of over 4% for the year but with "vulnerability".
- Inflation is low in developed countries (Graph – Inflation in developed economies).

### Headline and core inflation in developed economies



Source: UBS Global Economic Perspectives

- House prices are not expected to move up much.
- Monetary conditions are being kept relatively loose.
- Prices of food, commodities and resources like oil are showing no signs of falling.
- Australia is increasingly vulnerable to performance of its resources and its surging dollar.

- The Middle Eastern situation will continue in turmoil with unexpected outcomes likely.

### New Zealand

- The New Zealand dollar will probably remain strong and gain from high commodity prices – meat, wool, logs, coal and milk etc.
- Inflation is expected to ease this year but may peak at 5% annualised.
- Elections at year end may not be favourable to the present Government with splinter groups emerging which could lead to more compromised governance.
- New Zealand is regularly told by IMF, OECD, S&P et al that it needs to increase its retirement age eligibility to 67, have a capital gains tax and reduce government spending.

### Asset Strategy for the June quarter 2011

#### Balanced Pool

The Investment Committee takes a cautious but optimistic view of the share market.

The growth assets should be **maintained** at 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 40% and 50% on Australian Shares and 50% and 60% on Overseas Shares. Overseas Fixed Interest is 100% 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**  
**May 2011**

### The Retire Fund

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