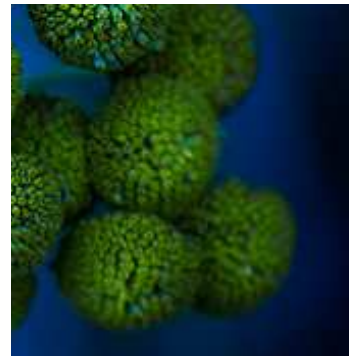
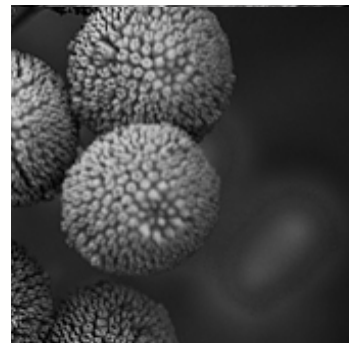
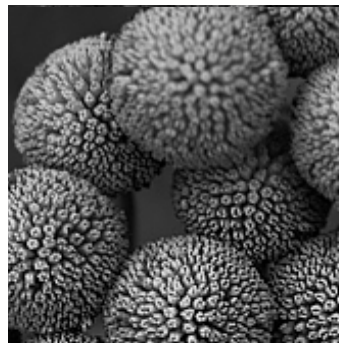


THE

RETIRE

FUND



INVESTMENT  
REPORT

FOR THE  
QUARTER TO  
30 SEPTEMBER  
2009

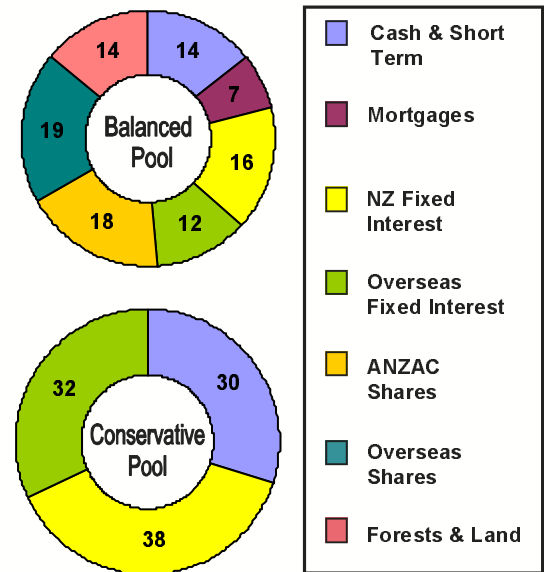
# INVESTMENT RETURNS



All figures in this report are provisional.

INVESTMENT TYPE	Gross returns for the September quarter %		Gross returns for the 6 months to September %	
	Balanced	Conservative	Balanced	Conservative
Cash and Short Term	0.3	0.4	0.6	0.7
Mortgages	1.6		3.3	
NZ Fixed Interest	3.2	2.6	5.4	4.3
Overseas Fixed Interest	8.9	8.9	17.5	17.4
ANZAC Equities	16.3		27.4	
Overseas Equities	8.4		21.4	
Property Equities	18.8		10.5	
Forests and Land	1.4		3.8	
<b>TOTAL</b>	<b>6.6</b>	<b>4.0</b>	<b>12.7</b>	<b>7.3</b>

Average investment assets percentages for the September 2009 quarter



Returns are before the deduction of expenses and tax.

# OVERVIEW



## RETURNS

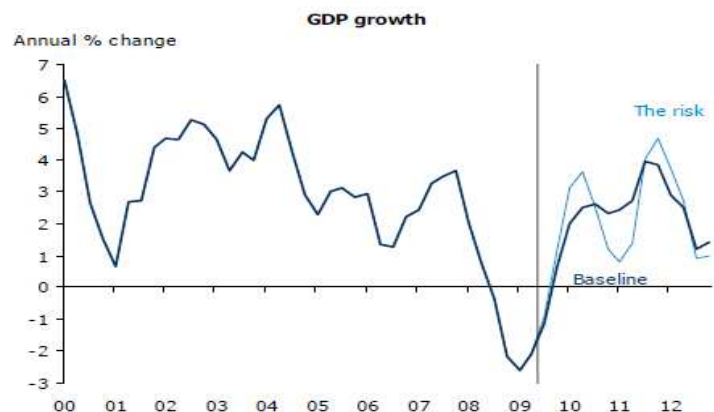
### Gross Returns For The Quarter, were

- **Conservative Pool** 4.0%
- **Balanced Pool** 6.6%

The sectors that made the best returns were Property Equities, ANZAC and Overseas Fixed Interest.

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

- The global economy emerged from recession, and equities again performed strongly during this quarter. The MSCI World Index of shares and the S&P 500 index of US shares both rose about 15% for the quarter. The world equity index has risen about 34% over the 6 months.
- Globally, GDP data has mostly rallied in the September quarter, and is especially pronounced in the Asian region. The graph opposite shows the change in GDP growth for New Zealand.
- Over the quarter, with confidence growing, investments flowed into the corporate bonds sector helping to fund businesses. The overweight in the fixed interest sector around the globe helped to keep yields low.
- The US dollar continued to weaken while the currencies of commodity countries, including New Zealand, strengthened.
- Unemployment has remained high in New Zealand. The aggressive policy stimulus aiding a recovering global economy may mean that the early signs of recovery are largely statistical in nature.
- The price of gold rose but that of oil held steady.
- Confidence built in the New Zealand residential property market with house prices at the end of September only a little below their 2007 peak.



Sources: ANZ National, Statistics NZ



Returns are gross unless otherwise stated.

## Cash and Short Term

The Official Cash Rate in New Zealand has remained unchanged at a record low of 2.5%. Many economic blocks kept their cash rate on hold to continue to provide substantial support for their economy's recovery. Those Official Cash Rates were: in Australia 3.0%, in Europe 1.0%, in UK 0.50%, in USA 0.25% and in Japan 0.1%.

## Residential Mortgages

The Pension Board's floating rate dropped to 5.95% from 6.20% during the quarter, while the three year fixed rate increased for the second consecutive quarter to 7.3%.

## NZ Fixed Interest

In New Zealand, the interest rate on the 10 year bond fell by 0.33 to 5.61. The portfolio therefore showed strong returns and outperformed benchmarks. Although the New Zealand economy emerged from recession in early September, there is some uncertainty around the recovery path and excess capacity warrants the RBNZ retaining OCR on hold at this low level until 2010.

## Overseas Fixed Interest

Internationally, the financial system has stabilised and confidence is returning, yet many central banks have still maintained a soft easing bias in their Monetary Policy. The G20 has made it clear that policy stimulus is expected to remain in place for an extended period.

The global fixed interest market posted strong gains during the third quarter. The New Zealand 10 years bond yield dropped from 5.9% to 5.6%, Australia 5.6% to 5.3%, Europe's from 3.4% to 3.2%, and USA from 3.5% to 3.3%, and Japan from 1.4% to 1.3%.

After hedging, the Board's Overseas Fixed Interest Managers AMP and PIMCO substantially outperformed including over 1 year, although over 3 years continued to lag. Neither Manager is operating to their own benchmarks nor with similar asset allocations to each other. Extensive research has been conducted on these managers, and another alternative, at the behest of the Investment Committee, with the intention of changing one of the managers.

## Private Equity

There was a modest draw down for DCP IV in the quarter. There are no September valuation statistics yet.

Trans Tasman No.7 tested the view of investors as to whether to continue expanding investments in new companies. The Trans Tasman Advisory Committee whose voting is dominated by large fund managers expressed the wish not to expand. In October, the decision was made to "close" the fund. It will still operate until 2014 and need further cash input.

## Australian and New Zealand Equities (ANZAC)

*With the commencement of the Board's Investment Trust with PIE status, New Zealand and Australia regional portfolios have been combined to give a combined return.*

For the quarter within the ANZAC sector, approx 35% of investments were in New Zealand and 65% in Australia. New Zealand returned 10.5%, and in Australia 19.6% after hedging. The total return of 16.3% and was slightly below the benchmark.

### New Zealand Companies

**Best** – Fletcher Building, Sky Television and Fisher & Paykel Healthcare

### Australian Companies

**Best** – Virgin Blue, United Group and Rio Tinto.

## Overseas Equities

Overall, global equities posted strong gains in the September quarter. All major geographic sectors in their local currencies made sizable double digit positive returns except Japan. The Board's portfolio performed well in local currency during the September quarter against benchmarks.

Its NZD return after hedging was slightly behind the benchmark, but gained almost 8.4% for the third quarter.

For the 3 months the portfolio's best sectors were Materials, Industrials and Utilities. The best benchmark sectors were Financials, Materials, and Industrials.

## Property Equities

Investments are held in a number of property companies in New Zealand and Australia. This sector produced a strong return and tracked well against benchmark in this September quarter. AMP NZ Office Trust is a third of the Board's portfolio, and it has risen 23% since the July low. For the quarter, the return was 18.8%.

## Forests

The values of the forests increased modestly.

The Moderated Emissions Trading Amendment Bill was sent to the Finance and Expenditure Select Committee at the end of September and contains within it uncertainties for the forestry industry particularly regarding future demand for and restrictions on sale of emissions units generated by post 1989 tree growth. The Investment Committee has yet to decide on a trading strategy for emissions units on the post 1989 forest (Hapua). The "free allocation" of units for the pre 1990 forests has not yet been progressed by Government.

Returns are from rentals after any direct costs have been deducted.

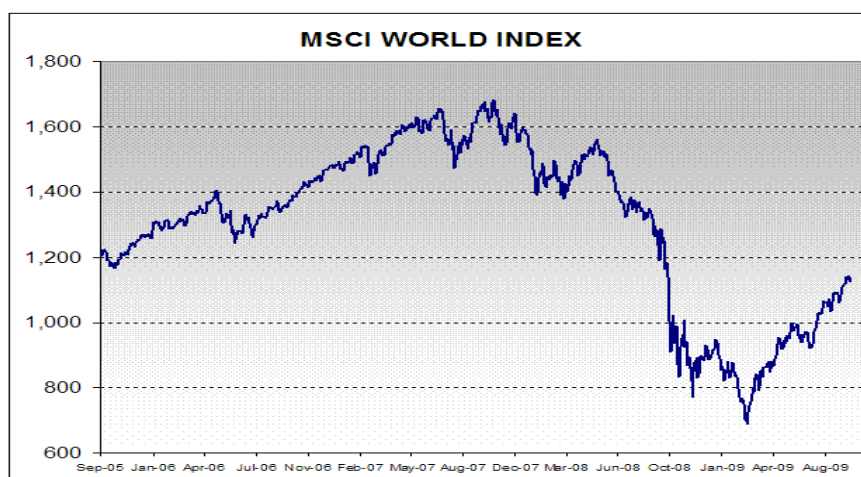


## WORLD OVERVIEW

### Looking Forwards

- Expectations for global growth continue to be revised higher, although “severe risks remain” source “BNZ Capital 16 October”.
- Much stronger performances than expected from companies support a forward view of good equity returns. The equity rebound has become a “V” (see graph 1).
- Pressure is easing on many debt instruments but markets are still unsure about the nature, amount or risk profile of what is still on issue and at risk in global markets.
- Country indebtedness increasing markedly – New Zealand has announced it needs to raise \$1 billion per month to cover year by year deficits for 4 years.
- Inflation is raising its head but speculators do not consider this an issue at present. It is not expected other major currency countries will follow Australia and raise their interest rates – yet.
- Expect the US exchange rate to continue weakening and New Zealand dollar to remain strong against almost everything except perhaps the Australian dollar, which like New Zealand, is the darling of the “carry trade” currencies.
- House prices are steadying in some areas, making small recoveries. Prices are surprisingly robust in New Zealand due to lack of supply.
- Unemployment rates are still expected to rise and business failures continue/increase.  
But,
- Investor concerns that bullish markets are not sustainable is leading to:
  - Ten year Treasury Bond rates dropping, despite large debt.
  - Gold price continuing over USD 1,000.
  - Many financial institutions surprising the market with a profit upsurge, and repaying their government loans but displeasing the market with excessive bonuses seen as “survival of the fittest”.

**Graph 1:**





## Asset Strategy for the Retire Fund for the December quarter 2009

### Balanced Pool

For income assets, the Investment Committee expects to reduce the weighting to NZ Fixed Interest and to adjust the Overseas Fixed Interest and Cash positions further.

The Investment Committee continues to remain cautious about benefits from the overseas equity markets, even while continuing to buy equities when value opportunities present themselves.

Currency hedging has been increased to over 60% of Overseas Equities and hedging on the Australian dollar should be over 30%. The Overseas Fixed Interest Portfolio is 100% currency hedged.

Growth assets overall will be maintained below SIPO benchmark.

### Conservative Pool

Investments will be made close to SIPO benchmark i.e. 30% Cash, 37% NZ Fixed Interest and 33% Overseas Fixed Interest.

### Balanced Pool

**Growth Assets** 55.0%

**Income Assets** 45.0%

### Conservative Pool

**Growth Assets** 0%

**Income Assets** 100%



(Mrs) Gillian B H Robertson  
**INVESTMENT MANAGER**  
November 2009

## The Retire Fund

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