

THE

RETIRE

FUND



INVESTMENT  
REPORT

FOR THE  
QUARTER TO  
30 SEPTEMBER  
2011

# INVESTMENT RETURNS

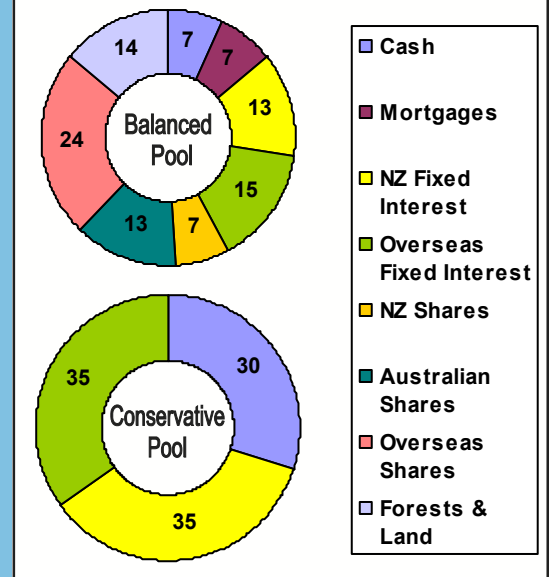


All figures in this report are provisional.

INVESTMENT TYPE	Gross returns for the September quarter %	
	Balanced Pool	Conservative Pool
Cash and Short Term	0.7	0.7
Mortgages	1.5	
NZ Fixed Interest	2.2	2.1
Overseas Fixed Interest	0.5	0.5
NZ Shares	-0.4	
Australian Shares	-13.9	
Overseas Shares	-12.4	
Forests and Land	-7.0	
<b>TOTAL</b>	<b>-5.2</b>	<b>+1.1</b>

Returns are before the deduction of expenses and tax.

Average investment asset percentages for the September 2011 quarter



# OVERVIEW



## GROSS RETURNS - Returns For The Quarter were:

**Balanced Pool** -5.2%  
**Conservative Pool** +1.1%

For the Balanced Pool the best returns came from NZ Fixed Interest, Mortgages and Cash. All the growth assets sectors 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 September Quarter - Financial & Economic Issues

### World Overview

- Share markets were the most volatile they had been in 115 years of the DOW index in the United States. The almost vertical graph shows the huge rise in volatility reflecting moves of the share market either up or down, on a daily basis.
- Unsurprisingly the largest share market falls for the quarter were Germany and France in line to pick up the EU Countries economic messes. Those two countries had 25% wiped off their listed shares.
- Australia which had shown signs of equity weakness in the June quarter lost nearly 13% in Australian dollars, partly due to investors lightening exposure to resources e.g. companies BHP, Rio Tinto and Woodside.
- Housing remained under pressure with new housing starts weak including in Australia and New Zealand.
- World growth expectations fell as China showed signs of further slowing.
- Credit downgrades by major rating agencies seemed to be the order of the day but unexpected to people in the United States and New Zealand. Neither country's debt seemed to suffer or have its bond prices fall particularly.
- Such global uncertainty caused the USD to strengthen.

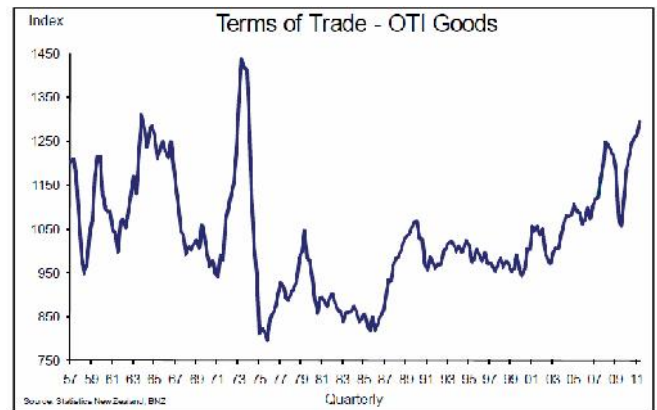


# OVERVIEW Cont...



## New Zealand Overview

- New Zealand was in a good position relative to most of the world's major developed and emerging market countries.
- Our terms of trade (see graph) were the highest they have been in 37 years.
- The New Zealand ten year government bond yield fell to 4.4% at the end of September as did similarly the yields of other developed Countries. Investors were seeking capital gains and security.
- Our share market fell only -4% gross considerably less than those of the other 13 Countries which the Board monitors daily.
- The NZ dollar fell from the post float high of 0.83 against the USD in the June quarter to 0.76 at the end of September.



# SECTOR COMMENTARY



Returns are gross unless otherwise stated.

## Cash

The Reserve Bank of New Zealand continued to leave the OCR on hold at 2.5% at the September quarter review. Growth expectations and inflation in New Zealand has moderated. The World's other major financial centres had no moves in their official interest rates except for Europe which rose to 1.5%. Australia's official cash rate stayed at 4.75% and the USA rate at 0.25%.

## Residential Mortgages

The Pension Board held its floating rate at 5.70% and the three year fixed rate at 6.75%.

## NZ Fixed Interest

The interest rate on the 10 year New Zealand Government Bond fell 65 bps to 4.4%. 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 12%.

## Overseas Fixed Interest

As risk aversion heightened, investors purchased government bonds particularly. This meant that treasury yields went down. For example, a ten year bond in the USA fell from 3.2% to 1.9% and similarly in Europe long dated government bonds seemed to come back into fashion and enthusiasm for corporate bonds waned which caused yields on those assets to rise (meaning that corporate bond prices fell, while the prices rose on the long dated government bonds). The composition of the portfolios of the Managers was: Government and related 9%, Corporate 50%, Mortgages 14%, Emerging markets 5%, other (swaps, derivatives etc.) 22%.

## Australian and New Zealand Equities (ANZAC)

Within the ANZAC Equities sector, approximately 37% of investments were in New Zealand and 63% in Australia. New Zealand returned -0.4% and Australia -13.9% after hedging into New Zealand dollars.

### New Zealand Companies

**Best** – Port of Tauranga, Telecom and Sky Network TV, which gained 11%, 10% and 7% respectively.

### Australian Companies

**Best** – AGL Energy, Westpac Bank and ANZ Bank, which lost -1%, -5% and -9% 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.

The weak returns from the overseas equity markets were improved by the New Zealand dollar weakening, although currency hedging moderated the gains.

## Forests

Overall forest values reduced largely due to falls in log and carbon credit prices.



## Asset Strategy for the December quarter 2011

### Balanced Pool

The Investment Committee takes 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 40% to 60% on Australian and Overseas Equities. Overseas Fixed Interest is up to 100% currency hedged.

### Balanced Pool

<b>Growth Assets</b>	<b>56%</b>
<b>Income Assets</b>	<b>44%</b>

### Conservative Pool

<b>Growth Assets</b>	<b>0%</b>
<b>Income Assets</b>	<b>100%</b>

(Mrs) Gillian B H Robertson

**INVESTMENT MANAGER**

### The Retire Fund

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