



Public Trust Investment Service.

Diversified Funds
Quarterly Update
30 September 2018

Funds Update

What is the purpose of this update?

This document tells you how the Public Trust Investment Service Diversified Funds have performed and what fees were charged.

The document will help you to compare the Funds (the Funds) with other funds. Public Trust has not prepared this update in accordance with the Financial Markets Conduct Act.

The Financial Markets Conduct Act 2013, the Securities Act 1978 and the Securities Regulations 2009 do not apply to this offer.

This information is not audited and may be updated.

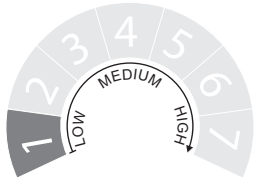
The Funds referred to in this Quarterly Update are used by Public Trust as investment options where it is acting as trustee or co-trustee of an estate or trust, or as property attorney or property manager for a non-consultable customer.

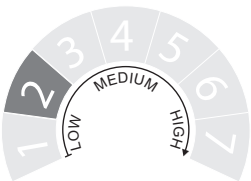
The Funds are not open to members of the public.

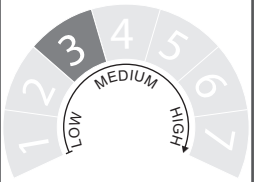
Any reference to us, we or our, refers to Public Trust.

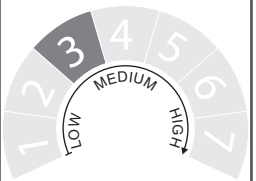
Description of the funds

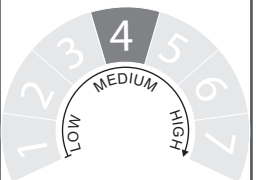
There are seven options offered in the Public Trust Investment Service Diversified Funds. The Funds referred to in this Quarterly Update are used by Public Trust as investment options where it is acting as trustee or co-trustee of an estate or trust, or as property attorney or property manager for a non-consultable customer. The Funds are not open to members of the public. These options are summarised below.

Cash Fund	
Aims to produce low risk returns by investing in short-term bank deposits and fixed interest securities.	 Risk indicator
Management fee	0.40% of your balance each year
Third party management fees	Nil
Entry/exit spread	Nil
Total value of the Fund	\$11.2m
Unit price (redemption)	1.0583
Fund start date	28 July 2014

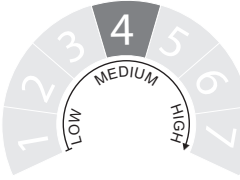
Defensive Fund	
Aims to produce stable returns with low capital growth and low risk over the medium-term by investing 80% in diversified income assets (cash and bonds) and 20% in diversified growth assets (shares and listed property).	 Risk indicator
Management fee	1.05% of your balance each year
Third party management fees	0.03% of your balance each year
Entry/exit spread	+/- 0.13%
Total value of the Fund	\$137.9m
Unit price (redemption)	1.1440
Fund start date	28 July 2014

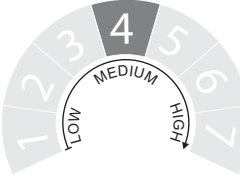
Conservative Portfolio	
Aims to produce stable returns with some capital growth and low to medium risk over the medium-term by investing 62.5% in the Defensive Fund and 37.5% in the Balanced Fund.	 Risk indicator
Management fee	1.11% of your balance each year
Third party management fees	0.05% of your balance each year
Entry/exit spread	+/- 0.18%
Portfolio start date	28 July 2014

Moderate Portfolio	
Aims to produce moderate capital growth with moderate risk over the medium-term by investing 25% in the Defensive Fund and 75% in the Balanced Fund.	 Risk indicator
Management fee	1.16% of your balance each year
Third party management fees	0.04% of your balance each year
Entry/exit spread	+/- 0.23%
Portfolio start date	28 July 2014

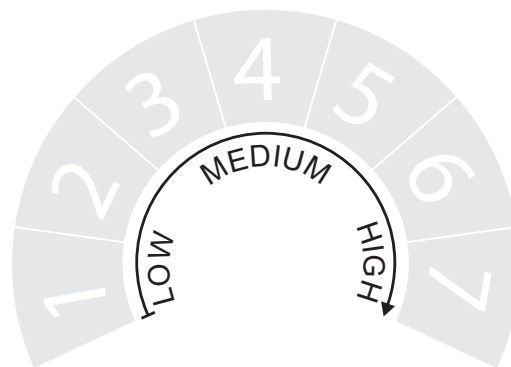
Balanced Fund	
Aims to produce long-term capital growth with medium levels of risk by investing 60% in diversified growth assets (shares and listed property) and 40% in diversified income assets (cash and bonds).	 Risk indicator
Management fee	1.20% of your balance each year
Third party management fees	0.04% of your balance each year
Entry/exit spread	+/- 0.26%
Total value of the Fund	\$238.4m
Unit price (redemption)	1.2960
Fund start date	24 July 2014

What are the risks of investing?

Balanced Growth Portfolio	
Aims to provide significant long-term capital growth with medium to high levels of risk by investing 50% in the Balanced Fund and 50% in the Growth Fund.	 <p>Risk indicator</p>
Management fee	1.20% of your balance each year
Third party management fees	0.05% of your balance each year
Entry/exit spread	+/- 0.29%
Portfolio start date	28 July 2014

Growth Fund	
Aims to produce high long-term capital growth by investing 80% in diversified growth assets (shares and listed property) and 20% in diversified income assets (cash and bonds).	 <p>Risk indicator</p>
Management fee	1.25% of your balance each year
Third party management fees	0.06% of your balance each year
Entry/exit spread	+/- 0.32%
Total value of the Fund	\$25.8m
Unit price (redemption)	1.3471
Fund start date	28 July 2014

Risk Indicator



The risk indicator is rated from 1 (low) to 7 (high). The rating reflects how much the value of a Fund's assets goes up and down. A higher risk rating generally means higher potential returns over time, but more ups and downs along the way.

Note that even the lowest category does not mean a risk-free investment.

The risk indicator is not a guarantee of a Fund's future performance. Because the Funds are relatively new it is not possible to base the risk indicator on long-term actual performance. Instead the risk indicator is based on historical fund performance for similar funds managed by Public Trust for the five years ended 30 April 2014. While risk indicators are usually relatively stable, they do shift from time to time.

See the Information Statement for more information about the risks associated with investing in these funds.

Important note

None of Public Trust, the Government of New Zealand or any other person guarantees the repayment of any investment in the Funds or the performance of the Funds.

What are the fees?

You will be charged fees for investing in the Public Trust Investment Service Diversified Funds. Fees are deducted from your investment and will reduce your returns. If Public Trust invests in other funds, those funds may charge fees also. The total fee you pay is made up of two main types of fees:

- Management fees. These fees are expressed below as a percentage of your balance each year.
- Entry/exit spread. These are one-off fees charged for investing or withdrawing from a Fund.

Management fees

Option	Public Trust management fee	Third party management fee
Cash Fund	0.40%	Nil
Defensive Fund	1.05%	0.01%
Conservative Portfolio	1.11%	0.03%
Moderate Portfolio	1.16%	0.04%
Balanced Fund	1.20%	0.04%
Balanced Growth Portfolio	1.20%	0.05%
Growth Fund	1.25%	0.06%

Third party management fees are calculated on the value of each Fund's investment in funds offered by the sub-contracted investment manager appointed to manage international shares. These fees are calculated and deducted daily from the third party funds in which these Funds invest.

Management fee rebate

Accounts with larger amounts invested qualify for a rebate of part of Public Trust's management fee, as outlined in the table below:

Amount Invested	Rebate
On the first \$500,000	0.00%
On the next \$500,000	0.40%
On the next \$1,000,000 plus	0.80%

The rebates are calculated daily and applied quarterly to your account held with Public Trust.

Entry/exit spread

Transaction costs are incurred by a Fund when buying and selling investments. In order to help the Funds recover these expenses when investors enter or exit the Funds, an adjustment is made to the calculation of the Funds' entry and exit unit prices. This is known as an entry/exit spread. The entry/exit spread applicable to each investment option is outlined in the table below.

Option	Application price plus:	Withdrawal price less:
Cash Fund	Nil	Nil
Defensive Fund	0.13%	0.13%
Conservative Portfolio	0.18%	0.18%
Moderate Portfolio	0.23%	0.23%
Balanced Fund	0.26%	0.26%
Balanced Growth Portfolio	0.29%	0.29%
Growth Fund	0.32%	0.32%

The fee is not charged in the Fund itself, but is based on the buy/sell spread of the wholesale funds in which it invests.

As transaction costs may change, the entry/exit spread may also change without prior notice. The income earned by the entry/exit spread goes towards the Fund's transaction costs and is not paid to Public Trust.

Certain administration expenses may be charged to the Funds where they are necessary in exercising our powers, as permitted under the Trust Deed. These include, but are not limited to, audit, legal and specialist investment advice. These expenses are not fixed and cannot be completely known ahead of time, but are not expected to be material.

Public Trust does not charge entry or exit fees (excluding the entry/exit spread), establishment fees, termination fees or any other fees or charges unless disclosed in the Information Statement.

Market Update

Markets at a glance

	Returns	
	Quarter	Year
International shares*	6.5%	19.7%
NZ shares	4.9%	19.1%
Australian shares*	1.5%	14.6%
NZ listed property	5.7%	14.7%

* In NZ Dollar terms

	Returns	
	Quarter	Year
NZ bonds	1.6%	4.9%
Cash	0.5%	2.0%
NZ Dollar**	-0.5%	-0.6%

** In trade weighted index terms

Commentary

Global equity markets finished the third quarter in positive territory with US equities hitting new highs and outperforming most other regions. The S&P500 equity index posted the best quarterly gain in 5 years and the US equity bull market became the longest on record at 3,453 days on 22 August 2018. This was largely driven by robust US economic indicators and consumer confidence surging to an 18 year high. Political uncertainty in Europe, rising interest rates in the US, the end of quantitative easing, and trade tensions between the US and the rest of the world remain key risks.

Global Equities

Returns from global equity markets were positive in the third quarter. The US equity market was the best performing market during the quarter posting its largest quarterly gain in 5 years and has now become the longest equity bull market on record. The US equity market rose 7.4% in local currency but rose 9.6% in New Zealand dollar terms.

The US economy continued to display stable and robust growth with key September data showing consumer confidence reaching an 18 year high and wages growing at the fastest rate since 2009. The National Federation of Independent Business's index which measures US small business optimism was the highest level ever recorded in the survey's 45-year history.

The US Federal Reserve (Fed) initiated its latest quarter-point interest rate rise to 2.25% and was widely anticipated by the markets. This is the Fed's eighth hike in three years and pushes the Fed Funds rate from 0.5% to 2.25%.

UK equities fell -0.4% in local currency terms because of escalating concerns surrounding Brexit and the US and China trade war. The Bank of England raised rates for the second time since 2008 from 0.5% to 0.75%.

Emerging Markets

The MSCI World Emerging Markets index was flat at 0% in local currency terms for the quarter and underperformed the MSCI World by 5.3%. The major reason for the underperformance of emerging markets was the poor performance of the Chinese equity market reflecting disappointing macroeconomic data and the negative impact of US tariffs.

New Zealand

The New Zealand NZX50 shares index rose 4.9% during the quarter and outperformed the Australian ASX200 shares index by 3.4% in NZ dollar terms.

The Reserve Bank of New Zealand (RBNZ) released the August Monetary Policy Statement and left the Official Cash Rate (OCR) unchanged at 1.75%. The RBNZ surprised the market by pushing out its first projected rate hike by about 1 year to the second half 2020. The RBNZ has put more weight on the risk of weaker growth rather than the recent lift in underlying inflationary pressures. This contributed to a weaker NZ dollar and heightened speculation of an OCR cut in 2019.

The ANZ business outlook survey for September reported a small uptick in business confidence surrounding business's willingness to hire new staff and increase investment. The New Zealand Institute of Economic Research Quarterly Survey of Business Opinion highlighted that uncertainty over new government policies and higher labour costs were the key contributors to a drop in business confidence over the past year.

The latest figures from Statistics New Zealand reported a minimal increase in net migration for the 12 months to August, but highlighted that annual population growth from migration has dropped back to its lowest level since 2015.

The NZ economy is undergoing a transition as the previous engines of growth are facing headwinds. Interest rates are expected to remain low and should support economic growth which is expected to be positive but below the strong levels seen in the last few years.

Outlook

The global economic environment remains positive but many major economies have progressed to the more advanced stage of the business cycle. Given the position in the economic cycle we expected to see central banks continue raise interest rates or end quantitative easing. The transition from the performance of financial markets being driven by liquidity to returns being driven by economic and corporate fundamentals is unlikely to be smooth. This coupled with geopolitical fears, continuing trade wars and concerns about the Chinese economy should see financial market volatility increase from the benign levels seen in the past few years.

How have the Funds performed?

	Past Quarter	1 Year	Annualised since inception
Cash Fund	0.61%	2.49%	2.49%
Defensive Fund	1.73%	5.53%	4.73%
Conservative Portfolio	2.32%	7.25%	5.81%
Moderate Portfolio	2.91%	8.97%	6.89%
Balanced Fund	3.31%	10.12%	7.60%
Balanced Growth Portfolio	3.67%	11.24%	8.13%
Growth Fund	4.04%	12.35%	8.65%

Commentary on performance

All funds were positive for the quarter with funds holding a larger exposure to shares advancing the most. The best performing asset classes within the diversified funds for the quarter were NZ property, NZ shares and global shares. While sharemarkets have been strong the weakening NZ dollar assisted with the strong performance particularly for NZ investors holding global shares. All funds are positive year to date.

The Diversified Funds Service focuses on investing in high quality assets including NZ Government Bonds, Corporate Bonds with an investment grade rating above BBB- and avoids assets such as preference shares, high yield bonds or subordinated debt which can in times of market stress react extremely negatively.

After a period of strong markets, we do expect both income and growth returns to be lower in 2018.

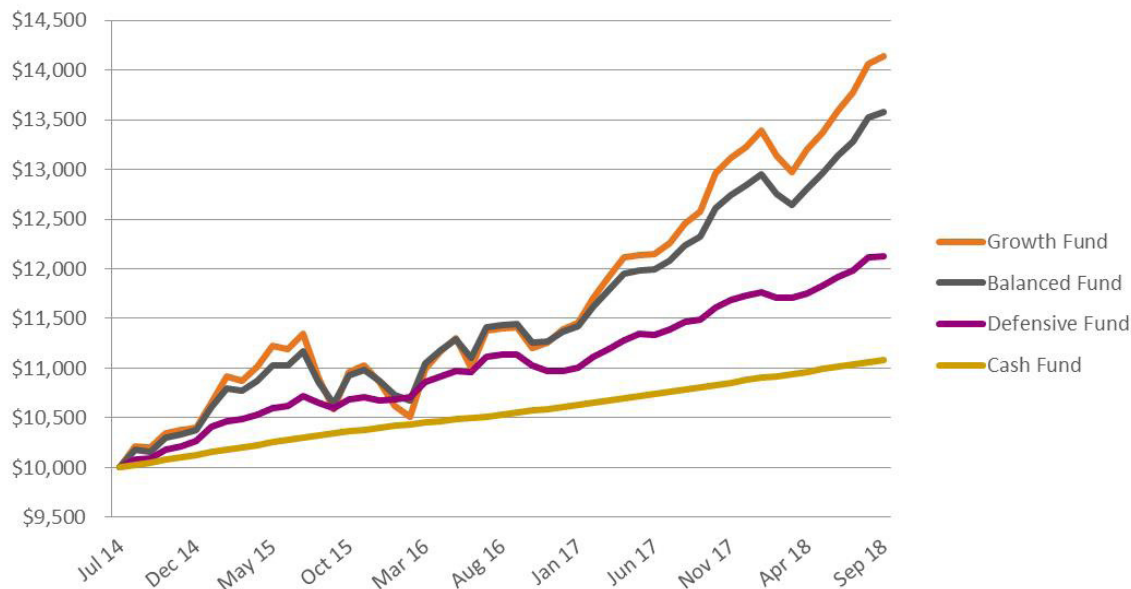
The growth of \$10,000 invested in each of the Funds since inception is outlined in the chart below. It is notable that since inception the diversified funds have significantly outperformed the Cash Fund.

Note on returns

They also assume that distributions are reinvested. Fund returns are after deductions for charges, but before tax. Important: Returns reflect past performance and do not indicate future performance.

Growth of a \$10,000 investment

Value of the investment

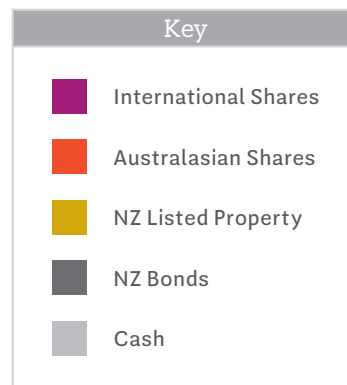
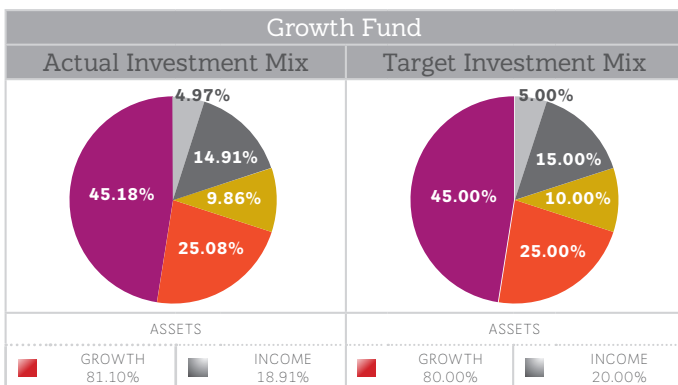
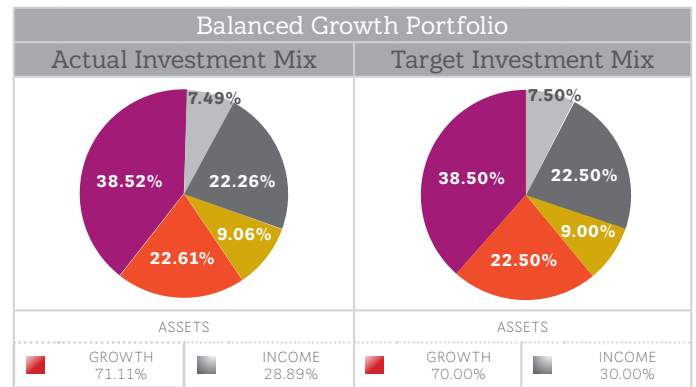
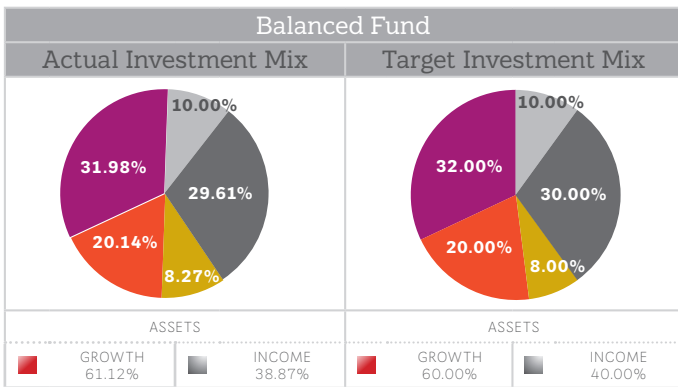
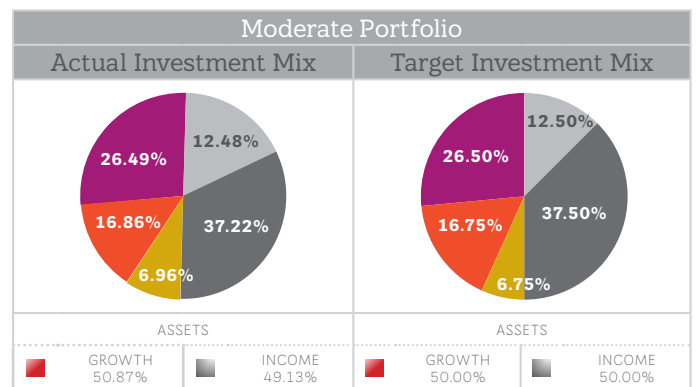
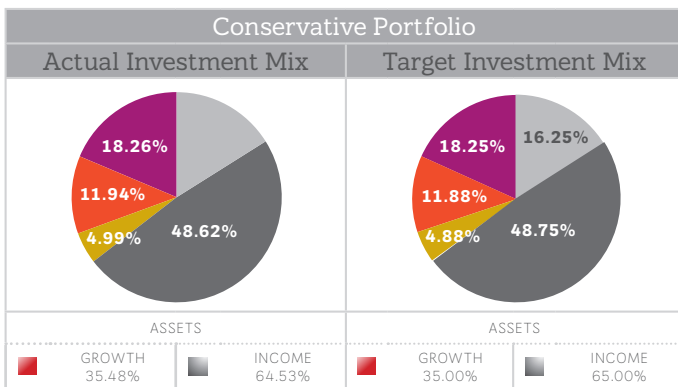
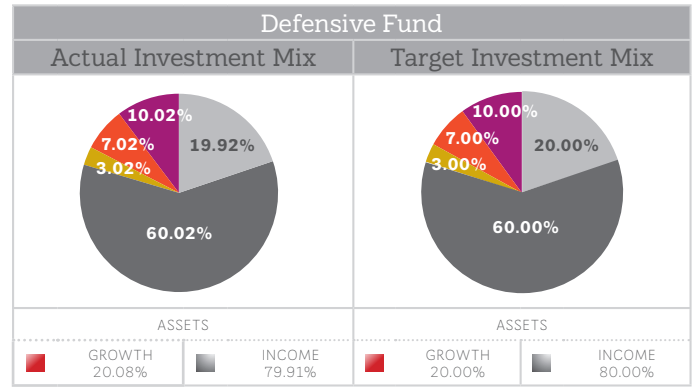
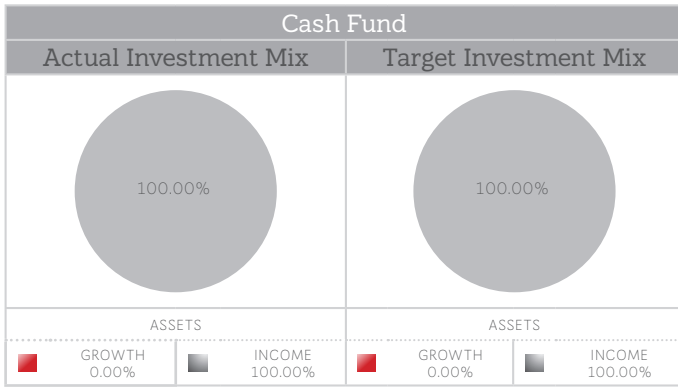


Assumes standard management fees, reinvestment of distributions and zero tax rate.

Inception date for the Balanced Fund is 24 July 2014. For all other Funds it is 28 July 2014.

Further information may be found in the document "Public Trust Investment Service Investment Beliefs and Strategy" on our web site: www.publictrust.co.nz.

What do the Funds invest in?



Top 10 holdings

GROWTH ASSETS

INTERNATIONAL SHARES		
COMPANY	COUNTRY	WEIGHTING
Apple Inc.	United States	2.10%
Microsoft Corp.	United States	1.60%
Amazon.com Inc.	United States	1.47%
Facebook Inc.	United States	1.01%
JPMorgan Chase & Co.	United States	0.81%
Johnson & Johnson	United States	0.71%
Alphabet Inc Class C	United States	0.77%
Alphabet Inc Class A	United States	0.74%
Exxon Mobil Corp	United States	0.75%
Tencent Holding Li (CN)	China	0.70%
TOTAL		10.60%

AUSTRALASIAN SHARES		
COMPANY	COUNTRY	WEIGHTING
Fisher & Paykel Healthcare Corp.	New Zealand	6.53%
a2 Milk Co	New Zealand	6.27%
Spark New Zealand	New Zealand	5.64%
Auckland Intl Airport	New Zealand	5.19%
Fletcher Building	New Zealand	4.23%
Ryman Healthcare Group	New Zealand	4.41%
Contact Energy	New Zealand	3.17%
Meridian Energy	New Zealand	3.13%
Z Energy	New Zealand	2.17%
SkyCity Entertainment Group	New Zealand	2.07%
TOTAL		42.80%

NZ LISTED PROPERTY		
COMPANY	FUND	BENCH-MARK
Goodman Property Trust	15.80%	17.86%
Stride Stapled Group	15.62%	9.23%
Precinct Properties NZ	14.72%	17.19%
Property for Industry	13.97%	12.03%
Argosy Property	13.73%	12.02%
Kiwi Property Group	13.59%	17.60%
Vital Healthcare Property Trust	12.44%	9.82%
TOTAL	99.89%	100.00%

INCOME ASSETS

NZ CASH		
ISSUER	CREDIT	WEIGHTING
ANZ National	A1+	21.00%
BNZ	A1+	15.43%
Westpac	A1+	19.78%
ASB	A1+	7.95%
Kiwibank	A1	10.50%
China Construction Bank	A1	2.20%
Industrial and Commercial Bank of China	A1	2.21%
Bank of China	A1	3.33%
Toyota Finance	A1+	2.75%
Dunedin Council	A1+	3.63%
TOTAL		88.79%

NZ BONDS		
ISSUER	CREDIT	WEIGHTING
New Zealand (Government)	AA+	35.11%
New Zealand (Local Government Funding Agency)	AA+	17.47%
Westpac	A+	4.03%
Bank of New Zealand	AAA	6.11%
ANZ Bank	A+	5.89%
ASB Bank	A+	3.61%
Auckland Council	AA	4.04%
Transpower	AA-	2.31%
Fonterra	A-	1.82%
Auckland International Airport	A-	1.68%
TOTAL		82.07%

Key personnel

Position	Investment Committee Chair	Chief Executive	Head of Investments
Name	Fiona Oliver	Bob Smith	Theresa Egan
Time in position	4 years 2 months	4 years 9 months	11 months
Previous Position	Committee member	Consultant to the Chief Executive	Investment Manager
Time in previous position	4 years 10 months	12 months	5 years
Employer	Public Trust Board member	Public Trust	Te Tuma Paeroa

Where you can find more information

Further information about the funds is contained in the Public Trust Investment Service Diversified Funds Information Statement dated 1 October 2018, a copy of which is available on request to Public Trust.

Contact information

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