



# Public Trust Investment Service.

Diversified Funds  
Quarterly Update  
31 December 2019

## 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.

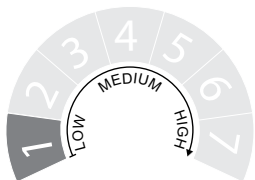
The Funds referred to in this Quarterly Update are used by Public Trust as investment options where it is acting as trustee or co-trustee of an estate or trust, or as property attorney or property manager for a non-consultable customer.

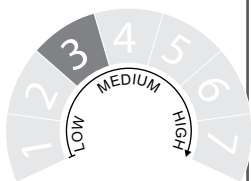
The Funds are not open to members of the public.

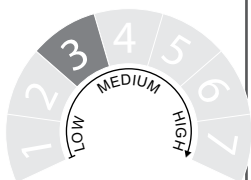
Any reference to us, we or our, refers to Public Trust.

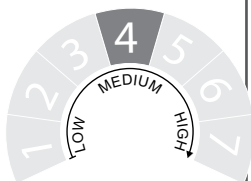
# Description of the funds

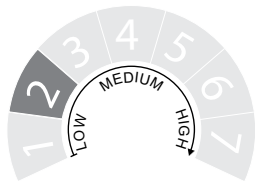
There are seven options offered in the Public Trust Investment Service Diversified Funds. The Funds referred to in this Quarterly Update are used by Public Trust as investment options where it is acting as trustee or co-trustee of an estate or trust, or as property attorney or property manager for a 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	\$35.1m
Unit price (redemption)	1.0635
Fund start date	28 July 2014

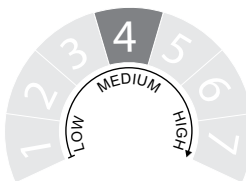
Conservative Portfolio	
Aims to produce stable returns with some capital growth and low to medium risk over the medium-term by investing 62.5% in the Defensive Fund and 37.5% in the Balanced Fund.	
	Risk indicator
Management fee	1.11% of your balance each year
Third party management fees	0.03% of your balance each year
Entry/exit spread	+/- 0.18%
Portfolio start date	28 July 2014

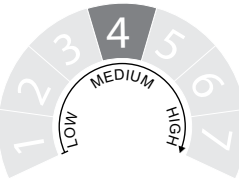
Moderate Portfolio	
Aims to produce moderate capital growth with moderate risk over the medium-term by investing 25% in the Defensive Fund and 75% in the Balanced Fund.	
	Risk indicator
Management fee	1.16% of your balance each year
Third party management fees	0.04% of your balance each year
Entry/exit 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	0.05% of your balance each year
Entry/exit spread	+/- 0.26%
Total value of the Fund	\$267.1m
Unit price (redemption)	1.4109
Fund start date	24 July 2014

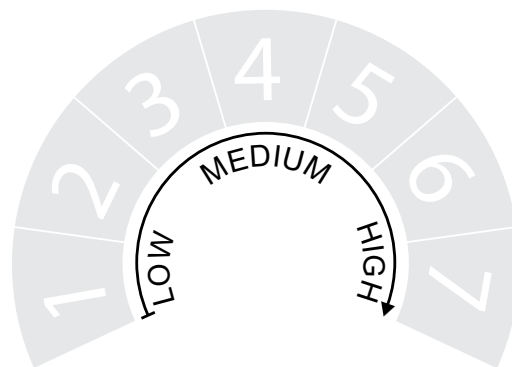
Defensive Fund	
Aims to produce stable returns with low capital growth and low risk over the medium-term by investing 80% in diversified income assets (cash and bonds) and 20% in diversified growth assets (shares and listed property).	
	Risk indicator
Management fee	1.05% of your balance each year
Third party management fees	0.02% of your balance each year
Entry/exit spread	+/- 0.13%
Total value of the Fund	\$158m
Unit price (redemption)	1.1932
Fund start date	28 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.	
 Risk indicator	
Management fee	1.20% of your balance each year
Third party management fees	0.06% 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).	
 Risk indicator	
Management fee	1.25% of your balance each year
Third party management fees	0.08% of your balance each year
Entry/exit spread	+/- 0.32%
Total value of the Fund	\$30.5m
Unit price (redemption)	1.4909
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%	0.02%
Conservative Portfolio	1.11%	0.03%
Moderate Portfolio	1.16%	0.04%
Balanced Fund	1.20%	0.05%
Balanced Growth Portfolio	1.20%	0.06%
Growth Fund	1.25%	0.08%

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*	1.3%	25.8%
NZ shares	5.3%	31.6%
Australian shares*	-2.5%	22.5%
NZ listed property	-0.6%	31.3%

\* In NZ Dollar terms

	Returns	
	Quarter	Year
NZ bonds	-2.9%	31.3%
Cash	0.4%	1.7%
NZ Dollar**	5.1%	0.5%

\*\* In trade weighted index terms

## Commentary

**Global equity markets recorded strong gains during the fourth quarter of 2019 and marked it as another strong year for investors. The NZD that had fallen 4.4% in the September quarter rebounded almost 10% over the December quarter with the trade weighted index returning 5.1%. The strong NZD meant unhedged investors saw the value of global shares return less in NZD terms, 1.3% compared to a hedged return of 7.6%. Emerging markets and the US led the gains (up 9.5 and 9% respectively) as trade uncertainty was dampened with the US and China's "phase one" trade deal announcement. The NZ sharemarket returned 5.3% well ahead of Australian equities, which were in negative territory. Greater economic resilience is required in periods of uncertainty so maintaining a diversified portfolio of investments with tolerable risk levels is sensible.**

## Global Equities

The sharp fall in equity markets during the end of 2018 brought about a strong start to 2019 with most asset classes delivering high single to double-digit returns for the year and the December quarter was no exception.

Reflecting on 2019, central banks shifted away from increasing rates a theme of 2018 to what the International Monetary Fund described as "the most synchronised monetary easing since the global financial crisis" with 49 central banks handing 71 interest rate cuts to the global economy. Chart 1 shows the drop in policy interest rates at year-end while Chart 2 shows annual year on year inflation has remained flat.

Fast forward to October and the US Federal Reserve delivered its final quarter point interest rate cut for the year and lowered expectations for future rate reductions. The European Central Bank (ECB) restarted its quantitative easing program and took its key interest rate further into negative territory from -0.4% to -0.5%. The ECB are hopeful the move encourages banks to lend more to businesses and households and help stop an economic slowdown.

Progress was made between the US and China, as trade

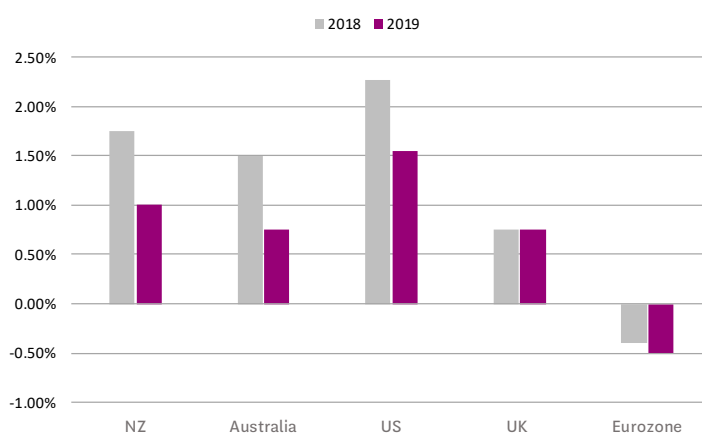
uncertainties diminished with a "phase one" trade deal announcement. Negotiations lead to a partial deal with the US reducing tariffs on Chinese goods while China has agreed to compromise and to increase purchases of US agriculture goods. However, trade tensions around the globe remain a key risk to global supply chains and financial markets.

Elections results in the UK saw the Conservative Party elected which has helped reduce uncertainty around the UK's departure from the European Union. The UK is set to leave on 31 January.

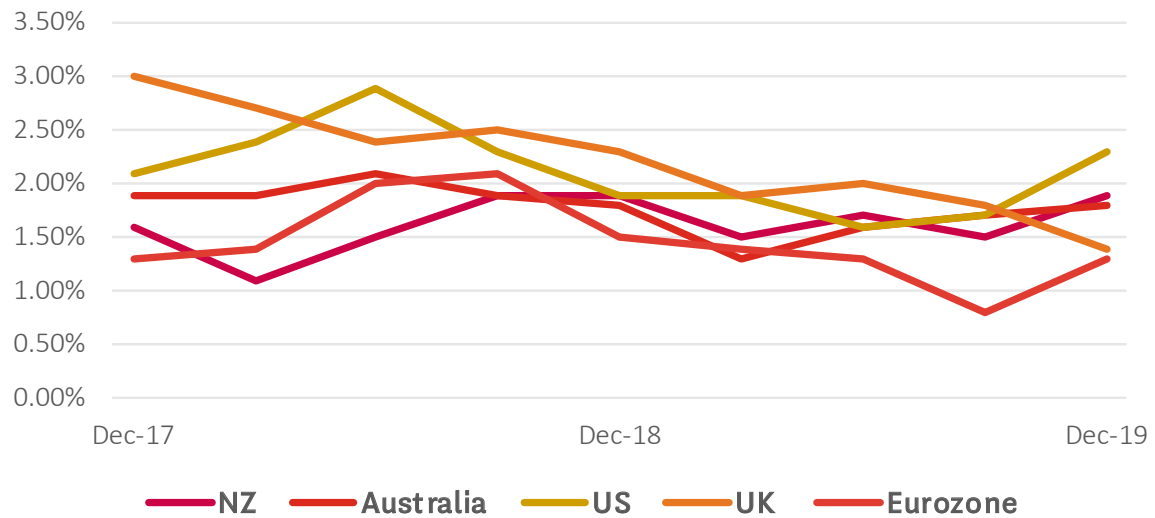
Global stocks moved higher in the December quarter as the MSCI ACWI Index rallied 7.6% in hedged NZD terms, while unhedged returns (+1.3%) were lower due to a strong NZ dollar.

Global bonds (Bloomberg Barclay Agg hedged in NZD) lost value over the quarter (-0.6%) as general interest rates rose off their lows causing bond prices to fall. However, the decisive actions taken by central banks earlier in the year to lower interest rates boosted returns for bonds, up 7.5% for the 12-month period ending 31 December 2019.

World Central Bank Policy Rates



## Consumer Prices Index - measure of inflation YOY



### New Zealand

The New Zealand NZX50 shares index returned 5.3% during the quarter off the back of a relatively strong New Zealand economy fuelled by better than expected third quarter GDP, rising +0.7%.

The New Zealand Institute of Economic Research Quarterly Survey of Business Opinion showed an improvement in business confidence in Q4, with a net 20% of manufacturers expecting less than favourable economic conditions compared to a net 52% in Q3. Meanwhile, ANZ's business outlook survey indicated that a net 17% of firm's are expecting increased activity over the year and was the highest result since 2018. However, optimism could further rebound reflecting the Government's plan to increase infrastructure spending during the next few years. The domestic economy seems to be tracking well with low unemployment, edging slightly lower to 4.2% to end the quarter.

In foreign exchange markets, the NZD strengthened against the USD, the pound sterling, Japan and most other countries. On a trade weight basis, the NZD rose by 5.1% as a favourable policy backdrop boosted the risk appetite among investors.

### Outlook

Economic growth is expected to slow, but remain positive, in many major economies in 2020. Central banks will continue to be focused on keeping monetary conditions highly accommodative given low inflation globally, which will provide support for markets. However, geopolitical tensions and trade disputes are likely to remain prevalent which means volatility will remain high and financial markets will be sensitive to news flow.

Uncertainties around the coronavirus have elevated risk but it is too early to gauge the impact, if any, on global economic growth. Any material impact would be negative for markets but central banks could lower interest rates further to assist the world economy. Greater economic resilience is required in periods of uncertainty so maintaining a diversified portfolio of investments with tolerable risk levels is sensible.

# How have the Funds performed?

	Past Quarter	1 Year	Annualised since inception
Cash Fund	0.45%	2.20%	2.43%
Defensive Fund	-0.39%	7.97%	4.88%
Conservative Portfolio	0.41%	11.38%	5.99%
Moderate Portfolio	1.20%	14.79%	7.09%
Balanced Fund	1.72%	17.06%	7.82%
Balanced Growth Portfolio	2.28%	19.29%	8.36%
Growth Fund	2.83%	21.52%	8.90%

## Commentary on performance

Equity markets finished strongly over the December quarter delivering positive returns for most DFS funds. NZ and global shares advanced, up 5.3% and 7.7% respectively, however, Australian equities were down 2.5% for the quarter. NZ bonds (corporate and government) were down (-1.2% and -2.9% respectively) as interest rates moved higher causing bond prices to fall. Consequently, the performance of the Defensive fund was slightly down -0.39% due to its large holding of NZ bonds. The listed property sector experienced a small negative return for the quarter down -0.6%, although it has over the past year been one of the best performing asset classes (+31.3%). The New Zealand dollar strengthened against major currencies (+5.1%) with the largest movement against the USD (+7.6%) for the quarter. This was a headwind for NZ based investors holding unhedged global shares.

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.

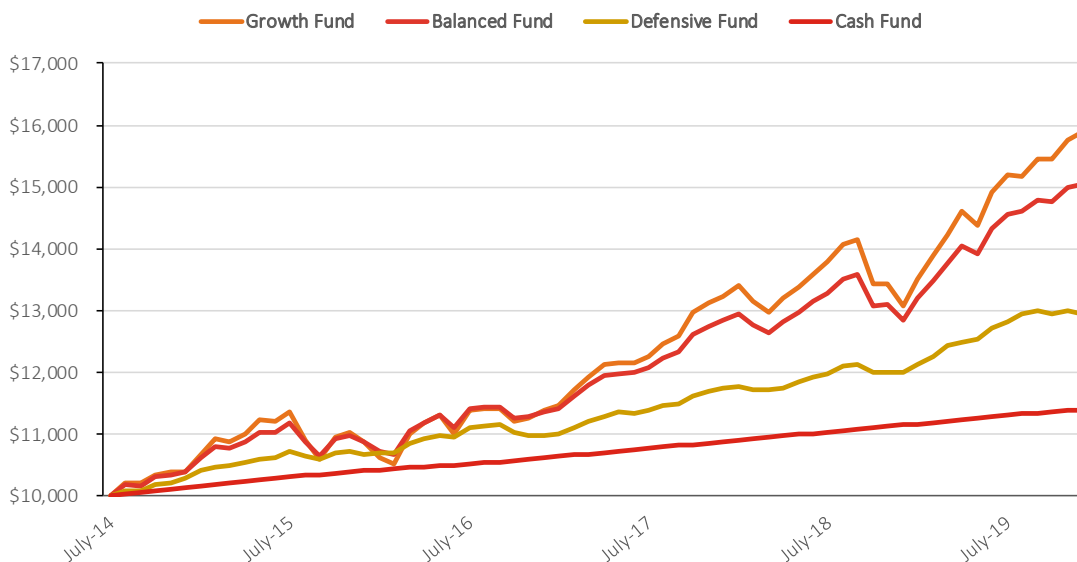
## Note on returns

The returns 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

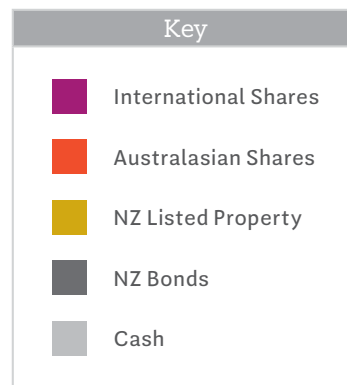
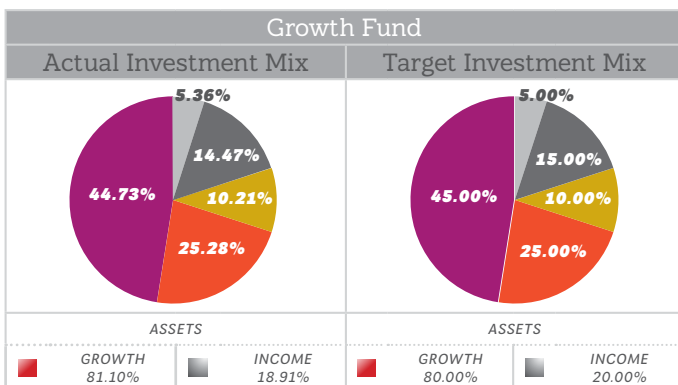
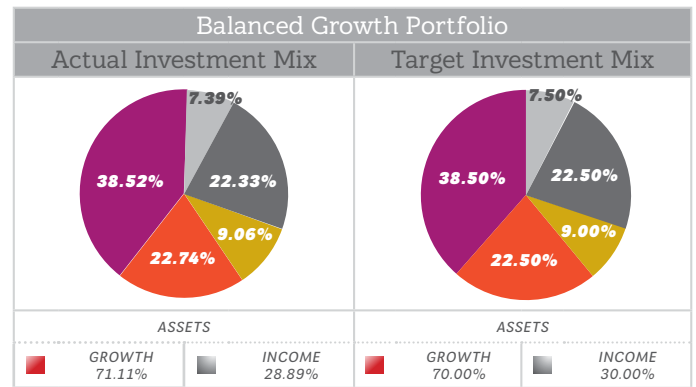
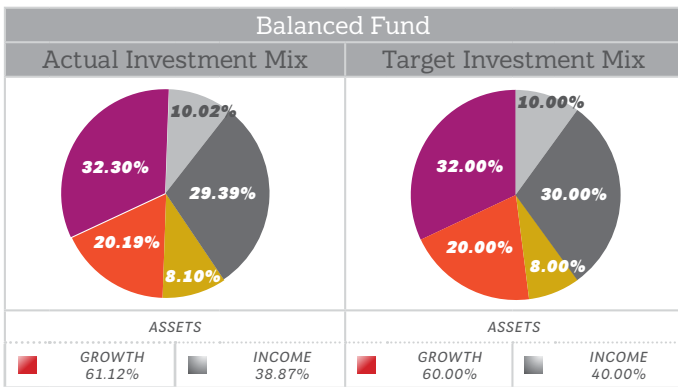
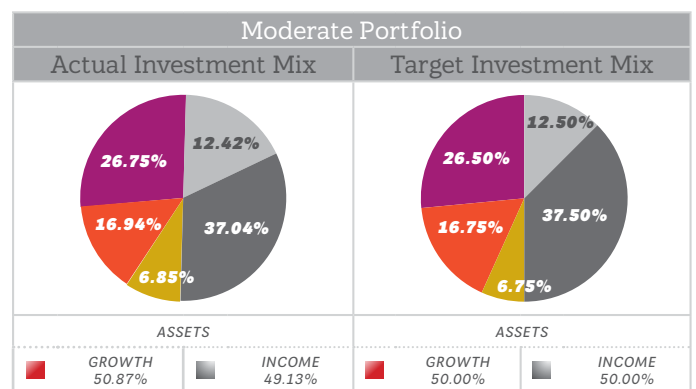
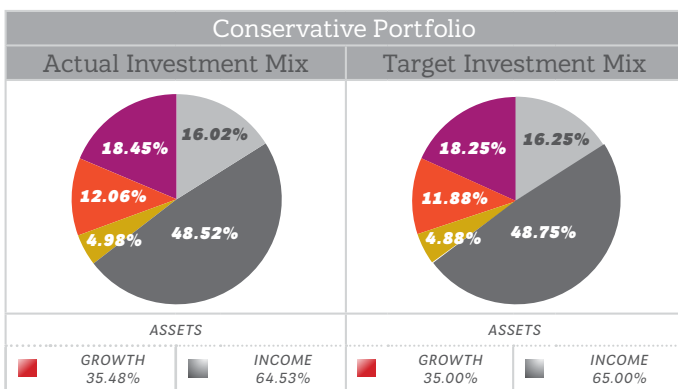
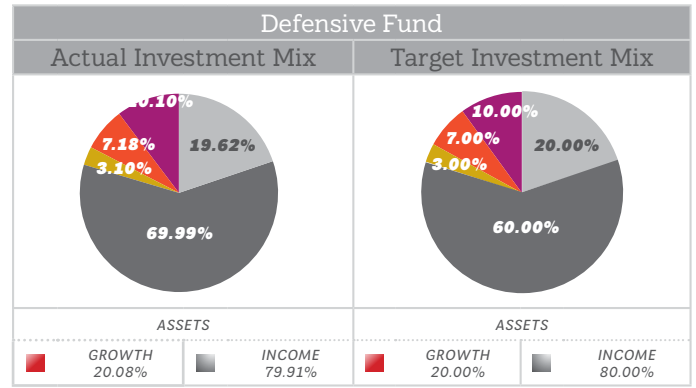
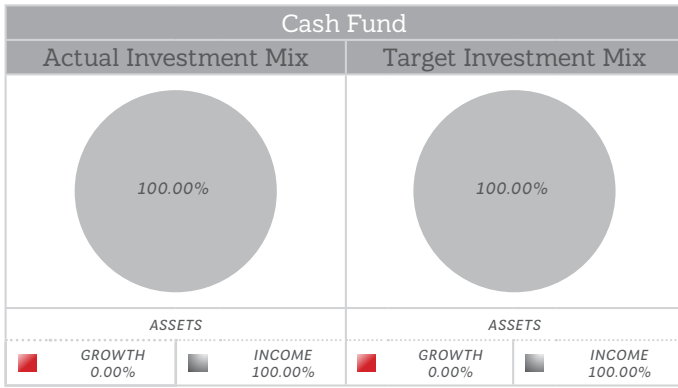


Assumes standard management fees, reinvestment of distributions and zero tax rate.

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 website: [www.publictrust.co.nz](http://www.publictrust.co.nz).

# What do the Funds invest in?





# Top 10 holdings

## GROWTH ASSETS

INTERNATIONAL SHARES		
COMPANY	COUNTRY	WEIGHTING
Microsoft	United States	2.19%
Apple	United States	2.10%
Amazon.com	United States	1.64%
Facebook Class A	United States	0.97%
JPMorgan Chase & Co.	United States	0.77%
Alphabet Inc. Class C	United States	0.81%
Johnson & Johnson	United States	0.76%
Alphabet Inc. Class A	United States	0.78%
Visa Class A	United States	0.69%
Nestle SA	Switzerland	0.76%
<b>TOTAL</b>		<b>11.45%</b>

AUSTRALASIAN SHARES		
COMPANY	COUNTRY	WEIGHTING
Fisher & Paykel Healthcare Corp.	New Zealand	8.16%
a2 Milk Co	New Zealand	6.98%
Auckland Intl Airport	New Zealand	5.57%
Spark New Zealand	New Zealand	5.16%
Ryman Healthcare Group	New Zealand	4.51%
Meridian Energy	New Zealand	4.00%
Contact Energy	New Zealand	3.29%
Fletcher Building	New Zealand	2.78%
Mainfreight Limited	New Zealand	2.33%
Infratil	New Zealand	2.12%
<b>TOTAL</b>		<b>44.89%</b>

NZ LISTED PROPERTY		
Company	Country	Weighting
Goodman Property Trust	New Zealand	15.14%
Kiwi Property Group	New Zealand	13.01%
Precinct Properties NZ	New Zealand	13.96%
Property for Industry	New Zealand	14.90%
Argosy Property	New Zealand	12.91%
Vital Healthcare Property Trust	New Zealand	14.89%
Stride Stapled Group	New Zealand	13.84%
<b>TOTAL</b>		<b>100.00%</b>

## INCOME ASSETS

NZ CASH		
ISSUER	CREDIT	WEIGHTING
ANZ Bank	AA-	16.29%
Kiwibank	AA-	16.29%
Bank of New Zealand	AA-	15.89%
ASB Bank	A	14.82%
Westpac	A	5.25%
Industrial and Commercial Bank of China	AA-	4.09%
Bank of China	A	3.68%
China Construction Bank	A	3.66%
NZ Local Government Funding Agency	AA-	3.64%
The Hongkong and Shanghai Bank	A	3.26%
<b>TOTAL</b>		<b>86.87%</b>

NZ BONDS		
ISSUER	CREDIT	WEIGHTING
New Zealand (Government)	AA+	33.74%
New Zealand (Local Government Funding Agency)	AA+	21.66%
ANZ Bank	A+	5.05%
Westpac	A+	4.84%
ASB Bank	A+	4.12%
Bank of New Zealand	A+	3.82%
Housing New Zealand	AA	3.56%
Auckland, Regional Council of	AA+	2.89%
Fonterra Co-operative Group	A-	2.13%
Auckland Intl Airport	A-	1.76%
<b>TOTAL</b>		<b>83.56%</b>

## Key personnel

<b>Position</b>	<b>Investment Committee Chair</b>	<b>Chief Executive</b>	<b>Head of Investments</b>
<b>Name</b>	<i>Fiona Oliver</i>	<i>Glenys Talivai</i>	<i>Theresa Egan</i>
<b>Time in position</b>	<i>5 years 5 months</i>	<i>9 months</i>	<i>2 years 1 month</i>
<b>Previous Position</b>	<i>Committee member</i>	<i>General Manager</i>	<i>Investment Manager</i>
<b>Time in previous position</b>	<i>4 years 10 months</i>	<i>4 years 5 months</i>	<i>5 years</i>
<b>Employer</b>	<i>Public Trust Board member</i>	<i>Tower Insurance</i>	<i>Te Tuma Paeroa</i>

## Where you can find more information Contact information

Further information about the funds is contained in the Public Trust Investment Service Diversified Funds Information Statement dated 1 January 2019, a copy of which is available on request to Public Trust.

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