Eastern & Central
COMMUNITY
TRUST

Helping fund a better community

EXECUTIVE MEETING
Thursday 30th October 2014
Commencing at 1:30 p.m.

AGENDA PAPERS

AGENDA FOR A MEETING OF THE EXECUTIVE COMMITTEE OF THE EASTERN AND CENTRAL COMMUNITY TRUST INC., TO BE HELD IN THEBOARD ROOM, 1ST FLOOR, WESTERMANS BUILDING 102-104 RUSSELL STREET SOUTH, HASTINGS ON THURSDAY 30th OCTOBER 2014, COMMENCING AT 1:30 PM.

Ring 08 30 33, then on voice prompt enter the PIN 333352 followed by the hash key.

SECRETARIAL AND BOARD ADMINISTRATION ITEMS

1. Apologies:
2. Minutes of the Executive Committee Meeting held 28th August 2014 : pages 3 to 7
3. Matters arising and action items: pages 8 & 9

FINANCIAL INFORMATION PAPERS : pages 10-42

4. Financial Report to 30th September 2014
5. Summarised Financial Position & Financial Performance YTD
6. Asset Allocation & Summarised Fund Manager reports

INVESTMENT PORTFOLIO REPORT

7. MCA May 2014 Monthly Report: pages 43-78

EXECUTIVE DECISIONS

8. Discretionary Donation Approvals; pages 79-83

EXECUTIVE/BOARD INFORMATION PAPERS

9. Hedging Reports : pages 84-92
10. BNZ Information/Market Commentary Papers, AMP October Quarterly Report : pages 93-134
11. General Business

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Report type:	Secretarial and Board Administration Items
Recommendation:	The Executive considers the Minutes of the Executive Meeting held on 28th August 2014 and approves as a true and accurate record of the meeting.
Agenda item no:	2
Subject:	Minutes of the Executive Committee Meeting held on 28th August 2014
Responsible for the report:	General Manager

Purpose of report:	To record the recommendations of the Executive from the Executive Meeting, including decisions taken, and to approve the minutes of the 28th August 2014 as a true an accurate record of the meeting.

MINUTES FOR THE MEETING OF THE EXECUTIVE COMMITTEE OF THE EASTERN AND CENTRAL COMMUNITY TRUST INC., HELD IN THE TOWN HALL, KENILWORTH ROAD, WAIPAWA ON THURSDAY 28th AUGUST 2014, COMMENCING AT 9.00 A.M.

PRESENT

In Person: Bruce Mills (Committee Chair), Anna Hansen, Geoff Milner, Kaye McAulay, Stephen Kerr, Jonathan Bell (General Manager), Bev Watkins (Donations Manager) and Kelie Jensen (Board PA/Secretary).

SECRETATIAL AND BOARD ADMINISTRATION ITEMS:

1. **APOLOGIES –** none

2. **DRAFT MINUTES OF LAST MEETING** – The draft minutes of the Executive Committee Meeting of 26th June 2014 were included in the agenda papers for approval.

- ***That the minutes of the Executive Committee Meeting held on 26th June 2014 be approved as a true and correct record.***

Moved Kaye McAulay
Seconded Bruce Mills
Carried

3. **MATTERS ARISING AND ACTION ITEMS** –
Matters Arising;
    - No matters arising.
    - Action Plan – The General Manager updated the current action plan noting;
        - Trustee exit interviews, remains pending until Governance Charter Review.
        - Changes to the reports will be made for the next Executive Meeting.

FINANCIAL INFORMATION PAPERS:

Item 4; Financial Report
The Trust's Financial Position and Financial Performance for July were included in the agenda papers.
- Net assets as at end of July were $152.5M.
- Investment returns for July of $0.39M – under budget by $168,447. **JB:** This is a timing difference re Pimco, and will be reversed next month and the following; Next year will have a better understand of timing, so budget will be more accurate.
- Investment returns YTD $4.3M – ahead of budget by $2.02M (variance includes $1.37M hedging gain).
- Expenses YTD were $.52M – under budget by $57,030.
- Donations YTD are $1.66M – under budget by $59,514.
- Net position YTD is a surplus of $2.08 – ahead of budget by $2.13 million
- Net surplus YTD, including unrealised income, is $4.28M.

The following was noted;
- Page 9

- **JB:** Has changed format of dashboard; **JB** will also include a second page with commentary for future meetings. **ACTION ITEM**

- Page 10
  - **AH:** Requested titles be changed to Actual YTD and Last Year End
  - **JB:** Noted Call at $3.4M and TD's reduced from$10M to $7M. Following Investment Retreat more will be invested in Global Bonds, so Call will be lower next month.
  - **SK:** Asked for explanation of Donations Creditors $1.75M. **JB:** This is grants from the last two years that have been approved but not yet uplifted (eg: TeMata Peak Trust $200K); **JB** will include Donation Creditors Commitment Schedule in future meetings, so trustees can review aging. **ACTION ITEM**
- Page 11
  - **AH:** Why is Rent & Services so far over budget? **JB:** Due to Insurance (HATMAR insurance, which is part of rental agreement) entered in total rather than spread over the year as in the budget.
  - **JB:** Advised that Conference Fees in October will be approx $13-14K vs. budget of only $5K – this is because conference is actually next year, but was budgeted for the year after. **JB** will include comment in Agenda Papers for Sep Trust Meeting. **ACTION ITEM**

Item 5; Summarised Financial Position & Financial Performance YTD

The following was noted;

- Page 16
  - **GMilner:** Noted that currencies particularly volatile at the moment, so hedging strategy going forwards is very important.
  - **JB:** Met with Michael. He believes AUD will go down, so potential opportunity. He also believes US$ will come back up (all banks except RABO project US$ will go down). **JB** to inform trustees in Agenda Papers for Sep Trust Meeting – can discuss in Sep and make any recommendations for Nov. **ACTION ITEM**
  - **GMilner:** Noted that hedging recommendation needs to be sent to all trustees for approval. Per **JB / BM** – yes, this miscommunication has been addressed and will be correct going forwards.
- Page 17
  - **JB:** Asked if members need this page as it is repetition. Members agreed – **JB** to remove from future reports. **ACTION ITEM**

Item 6; Asset Allocation & Summarised Fund Managers Report

The following was noted;

- Page 18
  - **JB:** Please ignore workings on right hand side of page, they were left in from a previous report in error.
  - **JB:** Noted $11M in reserves.
- Page 19
  - **BM:** Where will TD maturing next week be reinvested? **JB:** Will go to market and will likely split between two banks $1.5M and $1M, partly to align maturity dates.
  - **JB:** Noted BNZ 4.12% is a typo – should be 4.52%. Also noted that we have a lot with BNZ, but still within $6M max. Unlikely they will get any more though, even if best rate.
- Pages 22/23

- **JB:** Noted that Elevation Capital has been actively making purchases, but Forsyth Barr has not purchased anything – Richard not happy with anything within our mandate.
- **SK:** Asked what Richard gets on cash and should we get some back and reinvest? **JB:** Not as high as TD rates. General consensus that we leave full amount with him – we gave him funds to invest and asked him to make us a specific return, so investment decisions are his call – the question will be asked of him next April if he hasn't performed.

- <u>Pages 29</u>
  - **AH:** Pimco – any explanation of why we lost so much this month, should we be concerned etc? **JB** please ask Tony to provide a short explanation next time. **ACTION ITEM**
- <u>Pages 31</u>
  - **BM:** Noted purchase of Kiwi Income Property & sale of Goodman Fielder.

Item 7; MCA May 2014 Monthly Report

The following was noted;

- <u>Page 58</u>
  - **SK:** What are the benchmarks? It appears that our fund manager has been performing below them. **JB:** This question comes up often – these are standard benchmarks and not necessarily relevant. **GMilner:** Our mandate is focussed on income (conservative, stable investments) rather than capital growth, so not appropriate to evaluate against industry standard capital growth benchmarks. **SK:** Then how do we evaluate the performance of our fund managers in March – not enough to say they have met our request to make $ amount, we also need some way to evaluate compared to the performance of other fund managers. Our focus is on income, but we also need to maintain capital. **BW:** Noted that this was discussed at July Trust Meeting – portfolios are new and we won't get a clear picture of performance until next year. **BM:** Richard from Forsyth Barr will be at the Sep Trust Meeting, so **SK** can ask these questions of him, perhaps suggest that our 4.5% expectation was conservative and our expectations will likely increase. **ACTION ITEM**
- <u>Page 65</u>
  - **BM:** Noted little activity – Elevation Capital / Christopher Swasbrook sold a few shares in Gentrak and bought nothing; Forsyth Barr / Richard Burton didn't buy or sell anything.

<u>EXECUTIVE DECISIONS:</u>

Item 8; DISCRETIONARY DONATIONS

The Executive considered the Discretionary Donations and recommend they be approved/declined as follows.

***Approved*;**

Waiata Maori Awards Charitable Trust - $4,000 towards operations costs of running a community Maori Music Expo in Hastings.

Declined;

Reignier School, Napier - $11,000 to cover the cost of accommodation for year 5/6 students to attend a camp in Wellington. Declined because school camps are outside policy.

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Moved Geoff Milner
Seconded Stephen Kerr
Carried

<u>EXECUTIVE/BOARD INFORMATION PAPERS:</u>

JB: Noted that reports are now being uploaded to the website and can be accessed from Trustee Login. This means they will be available within two days, rather than two months later as part of the Agenda Papers for the next meeting. JB to include Agenda Item for Sep and future Trust Meetings re any questions from trustees on the available reports.

<u>GENERAL BUSINESS</u>:

JB: Received letter last week from Pioneer with Option re WhereScape, which is looking to list. These types of offers need decisions to be made within five days. JB advised Chair and Deputy Chair and received advice from Michael, who also discussed with Chris and Richard – all three recommended not to take the Option because disclosure documents were incomplete and would fall outside mandate to equity managers (ie: no income for four years). **GMilner:** For future, does JB need to advise trustees at the time or fine to keep between Chair, Deputy Chair and managers and simply include in report at following Trust Meeting? General consensus that the latter is fine. **JB** to include note on WhereScape Option in report for Sep Trust Meeting. **ACTION ITEM**

CLOSURE

As there was no further business the meeting concluded at 10.07 a.m.

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Report type:	Secretarial and Board Administration Items
Recommendation:	The Executive receives the Action Plan from the previous Executive Meeting dated 28th August 2014.
Agenda item no:	3
Subject:	Executive action items and matters arising progress report
Responsible for the report:	General Manager

Purpose of report:	To ensure that assigned tasks are monitored and completed.

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EXECUTIVE COMMITTEE ACTION PLAN

Meeting Date; 28th August 2014

#	ACTION	WHO	WHEN	STATUS
1	Add amended Trustee exit interview strategy to plan and charter	Jonathan	At Governance Charter Review	Pending
2	Dashboard Report – Include a second page with more expanded commentary	Jonathan	Oct 2014	Completed
3	Conference Fees – PNZ conference in next financial year, budget did not take into account early-bird specials and payments. To be reported to Trust in Sept	Jonathan	Sept2014	Completed
4	Hedging – Report to Sept meeting of hedging position	Jonathan	Sept 2014	Completed
5	Page 17 of papers – Potfolio Summary was a repetition of the Balance Sheet on page 10. Jonathan requested that this be removed from future reports	Jonathan	Oct 2014	Completed
6	PIMCO – Noted that there was a significant drop on the portfolio from previous month. Jonathan to ask Tony Hildyard for the reason	Jonathan	Oct 2014	Completed
7	Forsyth Barr Investment return Options – To be asked in the Sept Board meeting when Richard Burton will be present	Stephen	Sept 2014	Completed
8	WhereScape Public Listing Offer – This was declined by the respective Equity Managers. Jonathan asked to report this in the Sept Board papers	Jonathan	Sept 2014	Completed

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Report type:	Financial information papers
Recommendation:	The Executive notes the financial position, financial performance, asset allocation, and summarized fund manager reports as at 30th September 2014.
Agenda item no:	4 to 6
Subject:	Investment Portfolio Report
Responsible for the report:	General Manager

Purpose of report:	To inform the Executive of where the funds of the Board are invested, the overall performance of the diversified investment portfolio and the current asset allocation and compare performance against budget and agreed benchmarks.

ECCT MONTHLY FINANCIAL REPORTING DASHBOARD

Month End	Sept 30 2014	Comparison Current Month to Budget		Comparison YTD to Budget Sept 30 2014			Comments
	Actual (000's)	Budget (000's)		Actual (000's)	Budget (000's)		
Gross Realised Income	$ 0.749	$ 0.608		$ 5.220	$ 3.337		Good month for income and YTD ahead of budget
Expenses	$ 0.159	$ 0.146		$ 0.822	$ 0.881		Month expense over due to conference fees being paid early $9k and wages payments for month $8k. N.B. YTD Salaries under budget
Net Realised Income	$ 0.590	$ 0.462		$ 4.400	$ 2.456		Net income YTD is ahead of budget 70% of this due to hedging gains
Donations	$ 1.153	$ 1.410		$ 2.859	$ 3.068		Slightly under budget for YTD
Profit/Loss	-$ 0.563	-$ 948.000		$ 1.541	-$ 0.612		Realised income ahead of budget by $1.89 mill Net Income YTD (Unrealised + Realised) = $10.675 mill

Investments	Aug 31st Value	Sept 30 Value	YTD Change (000's)	March 31st Value (000's)	Comments
Equity F Barr	46,154	47,758	4,788	42,970	Refer to GM commentary
Equity E Capital	46,335	47,466	5,040	42,426	Refer to GM commentary
NZ Bonds	39,854	40,076	275	39,801	Refer to GM commentary
O'Seas Bonds	14,932	14,999	2,922	12,077	Refer to GM commentary
Own Cash	7,000	7,000	- 3,000	10,000	Transfer of $3 mill to O'seas Bonds and equities

	Current Month	YTD
Complaints	Nil	Nil

Value increased or ahead of budget
No change
Value decreased or behind budget

GM Commentary

Income	Realised income for the month was ahead of budget. YTD is well ahead, however $1.3 mill of this was from hedging gains. It is likely the rollover on 8th Nov will incur a hit of $1 mill. Significant gains in Unrealised Investment income due to change in currency.
Expenses	Kiwisaver Contributions - Slightly higher than budget due to three pay periods in the month Computer services - Timing issue with TKP quarterly payment, YTD just above busget but we expect this to align before year end Staff Remuneration - Slightly higher than budget due to three pay periods in the month, YTD slightly over budget due to this, it will come back into line next month Conference Fees - Noted in previous reports. Andy Arcus and I will adjust these in next months accounts Donations Expenses - these are over budget for the month and the year. These have been underbudgetted as we have recieved more swimming pool applications than last year. The due diligence required to ensure we are not donating to a project which is not adequate or covered under OSH is important Next year this will be accountde for in the budget.
Donations	Donations are slightly behind budget for YTD $346k. Part of this is the number written back $92k.

Eastern & Central Community Trust
Statement of Financial Position
As at 30 September, 2014

	Sept Actual	Year End March 29014
Trust Funds		
Surplus Income	7,085,110	2,552,047
General Reserves	148,247,703	145,695,656
Total Trust Funds	**155,332,813**	**148,247,703**
Current Assets		
Petty Cash	134	49
Current	354,990	11,331
Imprest	1,716	1,316
Call	1,155,478	686,926
Sundry Debtors	29,557	107,446
Total Current Assets	1,541,874	807,068
Investment Assets		
New Zealand		
Shares Forsyth Barr	47,758,181	42,970,359
Shares Elevation Capital	47,466,078	42,426,400
Hedging Contracts NZ	(1,772,297)	1,352,990
Cash Self Term Deposits	7,000,000	10,000,000
Bonds Self	40,075,892	39,801,233
Te Kete Putea Ltd Partnership	90,656	90,656
Private Equity Pioneer Capital	625,944	581,104
Total New Zealand Investments	141,244,454	137,222,742
Overseas		
Bonds Pimco	14,999,351	12,077,149
Total Overseas Investments	14,999,351	12,077,149
Total Current and Investment Assets	157,785,679	150,106,959
Fixed Assets		
Fixed Assets at Cost	189,798	187,553
Accumulated Depreciation	(161,631)	(152,535)
Total Fixed Assets	28,167	35,018
Total Assets	157,813,845	150,141,977
Current Liabilities		
Donation Creditors	2,257,450	1,658,050
Trade Creditors	129,770	71,118
Creditor Accruals	93,813	165,106
Total Current Liabilities	2,481,032	1,894,274
Net Assets	**155,332,813**	**148,247,703**

Eastern & Central Community Trust
Statement of Financial Performance
For The 6 Periods Ending 30 September, 2014

	Current Month			Year to date			Full year	
	Actual	Budget	Last Year	Actual	Budget	Last Year	Budget	Last Year
Income								
Realised Investment Income								
New Zealand								
Shares FBarr Interest	374	200	1,064	5,832	1,200	77,847	2,500	89,888
Shares FBarr Dividend	224,750	80,000	163,238	945,096	646,000	362,219	1,800,000	997,853
Shares FBarr Disposal gain/loss	-	-	-	-	-	1,090,932	-	1,090,932
Shares ECap Interest	3,250	200	10,132	32,816	1,200	121,809	2,500	153,169
Shares ECap Dividend	211,963	170,000	179,382	1,090,127	930,000	335,545	1,800,000	1,005,936
Property NZ Interest	-	-	-	-	-	4,021	-	4,021
Property NZ Dividend	-	-	-	-	-	16,438	-	16,438
Property NZ Disposal gain/loss	-	-	-	-	-	45,997	-	62,861
Hedging gain/loss	-	-	-	1,369,493	-	102,117	-	1,435,800
Bonds Self Interest	305,938	330,000	332,002	1,310,715	1,337,000	1,355,062	2,400,000	2,559,260
Bonds Self Disposal gain/loss	-	-	-	(2,079)	-	-	-	-
Cash Self Realised Income	3,421	28,000	37,183	224,254	181,000	250,102	320,000	473,206
Sundry Income	-	-	-	170	150	-	150	10,550
	749,697	608,400	723,001	4,976,423	3,096,550	3,762,089	6,325,150	7,899,915
Overseas								
Shares SSGA Dividend	-	-	-	3,825	-	-	-	-
Shares SSGA Disposal gain/loss	-	-	-	-	-	20,289,471	-	3,237,081
Bonds Vngd Disposal gain/loss	-	-	-	-	-	913,054	-	(225,112)
Bonds Pimco Interest	-	-	-	241,543	240,000	29,092	720,000	236,669
Property Au Disposal gain/loss	-	-	-	-	-	(212,238)	-	140,442
	-	-	-	245,368	240,000	21,019,379	720,000	3,389,079
Total Realised Income	749,697	608,400	723,001	5,221,791	3,336,550	24,781,467	7,045,150	11,288,994
Unrealised Investment Income								
New Zealand								
Shares FBarr change in Currency	1,807,195	-	(1,641,112)	2,703,203	-	(1,457,845)	-	(3,315,316)
Shares FBarr change in Value	(249,037)	-	1,018,640	1,065,263	-	(345,412)	-	1,766,424
Shares ECap change in Currency	1,688,733	-	(1,462,195)	2,967,814	-	(1,198,817)	-	(2,743,883)
Shares ECap change in Value	(599,943)	-	695,193	1,054,960	-	249,740	-	1,654,536
Property NZ change in Value	-	-	-	-	-	16,864	-	(0)
Hedging change in Value	(1,564,079)	-	1,358,943	(3,243,477)	-	1,319,893	-	1,578,350
Bonds Self change in Interest	25,313	-	(121,314)	165,089	-	(30,071)	-	52,038
Bonds Self change in Value	(109,092)	-	19,721	300,934	-	(571,236)	-	(1,217,663)
	999,090	-	(132,123)	5,013,785	-	(2,016,885)	-	(2,225,516)
Overseas								

Eastern & Central Community Trust
Statement of Financial Performance
For The 6 Periods Ending 30 September, 2014

	Current Month			Year to date			Full year	
	Actual	**Budget**	**Last Year**	**Actual**	**Budget**	**Last Year**	**Budget**	**Last Year**
Shares SSGA change in Currency	-	-	-	-	-	1,232,283	-	0
Shares SSGA change in Value	-	-	-	-	-	(18,284,673)	-	(0)
Bonds Vngd change in Currency	-	-	-	-	-	(448,759)	-	(0)
Bonds Vngd change in Value	-	-	-	-	-	(689,407)	-	(0)
Bonds Pimco change in Value	66,911	-	150,252	439,125	-	(224,488)	-	75,328
Property Aus chg in Currency	-	-	-	-	-	(76,100)	-	0
Property Aus change in Value	-	-	-	-	-	428,779	-	0
	66,911	-	150,252	439,125	-	(18,062,365)	-	75,328
Total Unrealised Income	1,066,001	-	18,130	5,452,910	-	(20,079,250)	-	(2,150,187)
Total Investment Income	**1,815,699**	**608,400**	**741,131**	**10,674,701**	**3,336,550**	**4,702,217**	**7,045,150**	**9,138,807**
Expenses								
Administrative Expenses								
Advertising - Statutory	154	-	2,163	13,411	12,000	5,135	12,000	39,135
Promotion	3,268	1,000	2,257	14,388	50,500	11,856	72,000	23,326
Rent & Services	7,581	9,853	7,163	60,179	58,848	58,267	115,000	103,442
Telephone	992	1,000	767	6,835	6,000	4,960	12,000	10,832
Postage	30	270	272	1,614	1,825	1,633	4,000	3,438
KiwiSaver net Contributions	2,018	1,500	1,946	8,495	9,000	8,502	18,000	18,055
Printing & Stationery	1,099	1,200	699	5,102	9,100	8,043	16,000	12,807
Insurance	-	-	-	8,707	8,000	8,287	8,000	7,031
General Expenses	150	330	675	359	1,980	1,265	4,000	5,666
Computer Services	18,748	2,000	863	45,479	43,000	37,696	80,000	62,132
Staff Remuneration	53,911	46,000	46,007	231,151	226,555	212,899	475,000	432,882
Staff Training	-	-	-	-	2,000	80	5,000	115
Staff Travel	1,849	2,000	1,546	9,941	8,450	7,645	20,000	13,089
ACC Levies	-	2,000	1,400	(544)	2,000	(63)	2,000	1,961
Total Administrative Expenses	89,801	67,153	65,756	405,119	439,258	366,206	843,000	733,912
Trustees Expenses								
Trustees Remuneration	19,765	19,000	19,765	85,650	89,000	83,365	175,000	169,015
Meeting Expenses	10,670	8,000	8,436	26,541	33,500	34,994	55,000	79,255
Trustee Training	-	-	-	1,731	9,500	16,537	10,000	16,996
Liability Insurance	-	-	-	-	-	-	9,300	8,789
Total Trustee Expenses	30,436	27,000	28,202	113,922	132,000	134,896	249,300	274,056
Fee Expenses								
Affiliation Fees	-	-	-	6,325	7,000	7,085	7,500	7,845
Conference Fees	9,194	-	-	14,272	5,000	-	5,000	5,250

Eastern & Central Community Trust
Statement of Financial Performance
For The 6 Periods Ending 30 September, 2014

	Current Month			Year to date			Full year	
	Actual	**Budget**	**Last Year**	**Actual**	**Budget**	**Last Year**	**Budget**	**Last Year**
Donation Expenses	2,702	1,800	-	15,259	6,700	-	10,000	1,104
Professional Expenses	6,815	8,000	12,860	37,470	46,250	55,935	90,000	149,691
Audit Fees	2,400	-	-	7,200	2,000	(17)	18,000	22,426
Brokerage Fees	-	1,000	6,346	19,407	6,000	233,571	12,000	272,336
Custodian Fees	1,579	2,000	1,941	17,817	17,500	27,591	36,000	59,186
Fund Managers Fees	15,336	40,000	34,561	176,471	220,000	184,416	440,000	398,403
Total Fee Expenses	38,027	52,800	55,708	294,221	310,450	508,582	618,500	916,241
Depreciation	1,407	-	1,564	9,096	-	9,879	-	19,312
Amortisation	-	-	-	-	-	-	-	17,974
Profit/Loss on Disposal of Fixed Assets	-	-	-	-	-	-	-	28
Total Expenses	159,671	146,953	151,230	822,358	881,708	1,019,563	1,710,800	1,961,523
Donations								
Community Donations								
Special Donations	464,950	750,000	750,300	1,113,950	1,500,000	1,476,300	2,800,000	2,916,000
Standard Donations	368,250	340,000	333,820	1,094,928	1,008,000	950,980	1,780,000	1,588,140
Discretionary Donations	-	-	-	8,143	10,000	1,000	20,000	16,000
Education Initiatives	-	-	-	92,500	-	-	150,000	-
Sport Trusts	320,000	320,000	-	320,000	320,000	-	320,000	-
Summer Reading Programme	-	-	-	230,000	230,000	230,000	230,000	230,000
Total Donations Approved	1,153,200	1,410,000	1,084,120	2,859,521	3,068,000	2,658,280	5,300,000	4,750,140
Regional Project Reserve Fund	-	-	-	-	100,000	-	300,000	-
Less Donations Written Back	(31,692)	-	-	(92,288)	(55,000)	(75,753)	(100,000)	(124,902)
Total Community Donations	1,121,508	1,410,000	1,084,120	2,767,233	3,113,000	2,582,527	5,500,000	4,625,238
Surplus Income	534,519	(948,553)	(494,219)	7,085,110	(658,158)	1,100,127	(165,650)	2,552,047

EASTERN & CENTRAL COMMUNITY TRUST

CASHFLOW REPORT

FOR THE MONTH ENDING 30 SEPTEMBER 2014

Westpac Call Account

Opening Statement Balance	**1,238,485**
CASH OUTFLOWS:	
Transfer to Current Account	252,000
Monthly Interest to Current Account	
Purchase Term Deposit	
Total cash outflows	**252,000**
CASH INFLOWS:	
Transfer From Current Account	165,000
Interest	3,993
Maturing Term Deposits	
Total cash inflows	**168,993**
Closing Statement Balance	**1,155,478**

EASTERN & CENTRAL COMMUNITY TRUST

CASHFLOW & PAYMENT AUTHORISATION REPORT

FOR THE MONTH ENDING 30 SEPTEMBER 2014

Westpac Current Account

Opening Statement Balance		**134,656**
CASH OUTFLOWS:		
Payments to creditors		95,714
Other expenses & Wages		56,380
Donations		133,600
Purchase of fixed asset		0
Capital Items	-Purchase of Term Deposit	5,000,000
	-Fee expenses	0
	-Transfer to call a/c	165,000
	-Transfer to imp a/c	1,500
	-Transfer to Elevation Capital	0
	-Transfer to Forsyth Barr	0
	-Transfer to Pioneer Capital	0
Hedging Close Out		0
PIMCO		0
Total cash outflows		**5,452,194**
CASH INFLOWS:		
Interest Received (Current & Term Deposits)		64,300
Dividends & Interest (Investment Managers)		352,941
Debtors		1,095
BNZ Hedging Pay Out		0
Donations Written Back		2,192
Sale of fixed assets		0
Capital Items	-Maturing Term Deposits	5,000,000
	-Transfer from FBarr Esam Cushing	0
	-Transfer from Elevation Capital	0
	-Transfer from call a/c	252,000
	-Transfer from imp a/c	0
Total cash inflows		**5,672,528**
Closing Statement Balance		**354,990**
	Unpresented Cheques	0
Closing Cashbook Balance		**354,990**

Committment Schedule

Client Number	Client Name	Request Number	Date Approved	Balance Remaining
Eastern And Central				
6,671	Manawatu Softball Umpires Assn	22325	22-Nov-12	750.00
6,628	Nga Taonga a Nga Tamatoa Trust	22483	22-Nov-12	30,000.00
4,354	Ngati Kahungunu ki Wairarapa Charitable Trust	22572	24-Jan-13	20,000.00
7,013	Massey University Foundation	22484	28-Mar-13	75,000.00
895	Ricochet Trampoline Club	22779	23-May-13	9,500.00
7,442	Te Ara Tika Trust	22855	25-Jul-13	4,000.00
4,403	Feilding & District Steam Rail Society Inc	22877	25-Jul-13	25,000.00
2,437	Te Mata Park Trust Board	22780	26-Sep-13	200,000.00
6,396	Hayseed Trust Inc	23021	26-Sep-13	9,500.00
2,180	Bay View Bowling Club Inc	23177	28-Nov-13	15,000.00
180	Camberley School	23202	28-Nov-13	15,000.00
1,655	Makirikiri Marae	23206	28-Nov-13	30,000.00
7,480	Harry Barker Sports Facility Trust	23233	28-Nov-13	200,000.00
1,422	Frimley School	23199	23-Jan-14	5,000.00
7,038	Te Whare Whai Matauranga o Turanga Literacy House Turanga	23333	23-Jan-14	4,000.00
1,826	Pahiatua Railcar Society Inc	23338	23-Jan-14	20,000.00
2,481	Eastland Triathlon and Multisport Club Inc	23394	23-Jan-14	15,000.00
7,400	Floral Art of New Zealand Inc Manawatu Area	23410	23-Jan-14	1,500.00
2,653	Carter Society Inc	23415	27-Mar-14	4,000.00
522	Henry Hill School	23421	27-Mar-14	5,000.00
7,511	Masonic Villages Trust	23434	27-Mar-14	10,000.00
240	Cobblestone Trust	23446	27-Mar-14	20,000.00
6,901	Te Puia Hot Springs Golf Club Inc	23457	27-Mar-14	4,000.00
5,988	Wellington Museums Trust Inc.	23460	27-Mar-14	4,000.00
6,201	Himatangi Beach Community Trust	23205	22-May-14	35,000.00
451	Hastings Boys' High School	23497	22-May-14	11,000.00
6,063	Friends of Millennium Native Forest Reserve Soc. Inc	23500	22-May-14	8,000.00
6,296	Matapuna Trust	23515	22-May-14	20,000.00
6,554	Pahiatua On Track Inc	23516	22-May-14	15,000.00
1,748	Napier Women's Refuge Inc	23519	22-May-14	12,000.00
331	Feilding Playcentre	23544	22-May-14	3,500.00
1,463	Gisborne Hospital Child Care Society Inc	23545	22-May-14	3,500.00
5,593	Marotiri Kohango Reo	23553	22-May-14	3,500.00
6,099	Taokotaianga Apii Kuki Airani Hastings Inc	23601	22-May-14	3,500.00
5,264	St Columba's Presbyterian Church - Taradale	23616	22-May-14	20,000.00
1,899	Riding for the Disabled - Gisborne Branch	23538	24-Jul-14	15,000.00
4,233	Central Hawke's Bay District Community Trust	23552	24-Jul-14	50,000.00
4,569	Returned Services Association Inc - Wairoa	23554	24-Jul-14	35,000.00
342	Flaxmere College	23628	24-Jul-14	17,000.00
3,852	Scout Association - Waiapu - Weka Campsite Committee	23658	24-Jul-14	4,000.00
537	Hohepa Homes Trust Board	23668	24-Jul-14	20,000.00
7,544	Hinemihi Marae	23677	24-Jul-14	44,000.00
6,230	Hawke's Bay Ecumenical Hospital Chaplaincy Assn	23687	24-Jul-14	20,000.00
4,624	Napier Golf Club Inc	23690	24-Jul-14	15,000.00
6,142	Greytown Community Sport & Leisure Society Inc	23734	24-Jul-14	15,000.00
4,373	RSPCA - Hastings & Districts	23746	24-Jul-14	4,000.00
7,339	Parent Teachers Association Feilding High School	23763	24-Jul-14	1,000.00
7,552	Tawhiti Rugby Club	23772	24-Jul-14	3,000.00
3,815	Wairarapa Sports Artificial Surface Trust Inc	23340	25-Sep-14	100,000.00
7,030	Alliance Francaise de Palmerston North Inc	23576	25-Sep-14	19,000.00

Client Number	Client Name	Request Number	Date Approved	Balance Remaining
1,486	Hackfalls Arboretum Charitable Trust	23637	25-Sep-14	4,000.00
1,377	Eskdale School	23685	25-Sep-14	49,000.00
6,333	Featherston Golf Club Inc	23697	25-Sep-14	4,000.00
5,362	Reynolds Hall	23709	25-Sep-14	40,000.00
7,554	New Zealand Schools Cycling Association	23729	25-Sep-14	4,000.00
1,102	Tiritea School	23737	25-Sep-14	18,000.00
5,963	Caccia Birch Trust	23769	25-Sep-14	18,000.00
6,918	Hawke's Bay Woodworking Education Trust	23770	25-Sep-14	35,000.00
855	Pongaroa School	23775	25-Sep-14	16,000.00
3,483	Poverty Bay Golf Club Inc	23776	25-Sep-14	55,000.00
2,806	Feilding Rugby Football Club Inc	23778	25-Sep-14	4,000.00
4,681	Life Education Community Trust - Gisborne	23780	25-Sep-14	20,000.00
5,661	Central Bowling Club Levin Inc	23781	25-Sep-14	4,000.00
1,542	Hawke's Bay Society for Music Education	23782	25-Sep-14	500.00
3,297	Napier Operatic Society Inc	23783	25-Sep-14	3,000.00
838	Parkinsonism Society - Manawatu	23784	25-Sep-14	4,000.00
1,181	Westshore Surf Life Saving Club Inc	23785	25-Sep-14	7,000.00
1,282	Camp Wakarara Inc.	23786	25-Sep-14	8,000.00
551	NZ Stairway Society Inc	23788	25-Sep-14	4,000.00
926	Roslyn School	23789	25-Sep-14	10,000.00
452	Harold Mayo Kindergarten	23790	25-Sep-14	1,800.00
598	Lansdowne Kindergarten	23791	25-Sep-14	800.00
989	Levin Interchurch Foodbank	23794	25-Sep-14	4,000.00
3,447	Palmerston Nth Operatic Society Inc	23795	25-Sep-14	4,000.00
3,765	Sounds of Hawke's Bay Chorus Inc	23796	25-Sep-14	2,000.00
2,589	Arohaina Resource Centre	23799	25-Sep-14	4,000.00
897	Riding for the Disabled - Napier Group	23800	25-Sep-14	4,000.00
6,117	Youth Development Hawke's Bay	23801	25-Sep-14	4,000.00
5,092	Havelock North Cricket Club	23803	25-Sep-14	4,000.00
6,848	Marewa Cricket Club Inc	23804	25-Sep-14	4,000.00
4,519	Milson Combined Church	23805	25-Sep-14	2,500.00
888	Red Star Cricket Club	23806	25-Sep-14	3,400.00
275	Scout Association - Dannevirke Scout/Cub Group	23807	25-Sep-14	3,500.00
5,692	Anglican Care - Growing Through Grief - Hawkes Bay	23808	25-Sep-14	4,000.00
2,688	Waipukurau Arts & Crafts Inc	23809	25-Sep-14	300.00
7,423	Whenua Fatales Roller Derby League Inc	23810	25-Sep-14	1,900.00
3,431	Palmerston Nth City Brass Band Inc	23811	25-Sep-14	4,000.00
3,646	Street Youth Ministries Trust Inc	23812	25-Sep-14	4,000.00
6,944	New Zealand Down Syndrome Association	23813	25-Sep-14	4,000.00
5,160	United Cricket Club Incorporated	23814	25-Sep-14	1,500.00
5,516	Heritage Park Rhododendron Charitable Trust	23816	25-Sep-14	8,000.00
7,472	Big Bang Adventure Charitable Trust	23817	25-Sep-14	3,500.00
684	Masterton Community Toy Library	23818	25-Sep-14	2,500.00
3,968	Bowls Napier Inc	23819	25-Sep-14	1,500.00
6,843	Green Hub Trust	23820	25-Sep-14	2,000.00
3,800	Wairarapa Hockey Association Inc	23821	25-Sep-14	4,000.00
227	Citizens Advice Bureau - Hastings	23823	25-Sep-14	4,000.00
4,924	Eketahuna Golf Club Inc	23824	25-Sep-14	6,000.00
7,429	Parents Centre New Zealand	23825	25-Sep-14	4,000.00
6,656	Real Life Youth Trust	23826	25-Sep-14	1,000.00
4,362	Terrace End Bowling Club Inc	23828	25-Sep-14	8,000.00
6,661	Kaisen Charitable Trust	23830	25-Sep-14	2,000.00
5,694	Royal New Zealand Ballet	23831	25-Sep-14	6,000.00
2,321	Presbyterian Support Services - East Coast	23832	25-Sep-14	3,000.00
5,049	Manawatu Rural Support Service Inc	23833	25-Sep-14	4,000.00
6,930	Reel Earth Environmental Film Soc of Aotearoa New Zealand Inc	23834	25-Sep-14	1,000.00
710	Mt Biggs Community Hall Society Inc	23835	25-Sep-14	20,000.00
7,575	Child Cancer Foundation Inc	23836	25-Sep-14	4,000.00
6,482	Learning and Growing Together Trust	23837	25-Sep-14	4,000.00
6,399	Manawatu Chinese Community Trust	23838	25-Sep-14	3,000.00

Client Number	Client Name	Request Number	Date Approved	Balance Remaining
109	Alzheimers Society Gisborne Inc	23839	25-Sep-14	4,000.00
6,768	Anglican Care - Growing Through Grief - Central Hawke's Bay	23840	25-Sep-14	3,000.00
6,928	Anglican Care - Growing Through Grief - Southern Hawke's Bay	23841	25-Sep-14	4,000.00
2,424	English Language Partners Palmerston Nth	23842	25-Sep-14	4,000.00
6,477	Maraetotara Tree Trust	23843	25-Sep-14	4,000.00
297	South City Playcentre	23844	25-Sep-14	3,500.00
2,378	Foxton Tourist & Development Association	23845	25-Sep-14	1,000.00
6,932	Hawke's Bay BMX Club Inc	23848	25-Sep-14	7,500.00
7,570	Gisborne International Music Competition Charitable Trust	23849	25-Sep-14	4,000.00
4,667	Literacy Wairarapa Incorporated	23850	25-Sep-14	4,000.00
4,254	Presbyterian Support Services - Central	23851	25-Sep-14	4,000.00
7,039	Public Dreams Charitable Trust	23852	25-Sep-14	4,000.00
7,294	Hawke's Bay Digital Archives Trust	23853	25-Sep-14	4,000.00
7,008	Hawke's Bay Cook Islands Community Centre Society Inc	23854	25-Sep-14	24,950.00
6,891	Birchleigh Polo Club	23857	25-Sep-14	4,000.00
6,757	Lions Club of Fitzherbert Charitable Trust	23859	25-Sep-14	1,600.00
7,469	Rangiwahia Environmental Arts Centre Trust Inc	23860	25-Sep-14	4,000.00
290	East Coast Rural Support Trust	23862	25-Sep-14	3,000.00
2,889	Gisborne Gymnastics Club Inc	23863	25-Sep-14	2,800.00
4,365	Napier City Council	23865	25-Sep-14	1,300.00
3,578	Samaritans Manawatu Inc	23866	25-Sep-14	4,000.00
6,225	Te Whakaritorito Trust	23867	25-Sep-14	4,000.00
5,444	Wainuioru School	23868	25-Sep-14	5,000.00
4,665	Horowhenua Kapiti Rugby Football Union Inc	23869	25-Sep-14	4,000.00
6,528	Manawatu Touch Assn Inc	23870	25-Sep-14	4,000.00
5,458	Napier Bridge Club Inc	23871	25-Sep-14	800.00
5,224	Weraroa Cricket Club Inc	23872	25-Sep-14	4,000.00
6,696	Wellstop Inc - Palmerston North	23873	25-Sep-14	4,000.00
6,934	Seven Dwarfs Community Trust	23874	25-Sep-14	3,500.00
7,581	Masterton Christian Child Care Programme	23876	25-Sep-14	3,500.00
7,598	Young Men's Christian Assn of Greater Wellington Inc	23877	25-Sep-14	4,000.00
5,723	Masterton Agricultural & Pastoral Assn Inc	23878	25-Sep-14	10,000.00
1,314	Central Connect Whare Manaaki Inc	23879	25-Sep-14	8,000.00
2,873	Gisborne City Vintage Railway Inc	23880	25-Sep-14	4,000.00
6,870	Kaiwaitau Kids Club	23881	25-Sep-14	2,500.00
6,010	Linton Camp School	23882	25-Sep-14	2,800.00
3,282	Napier Community Child Care Centre Inc	23883	25-Sep-14	7,000.00
3,012	Hawke's Bay Softball Association	23885	25-Sep-14	4,000.00
7,573	Palmerston Nth Fijian Community Inc	23886	25-Sep-14	2,000.00
1,093	The Salvation Army New Zealand Trust	23887	25-Sep-14	50,000.00
6,235	Gisborne Volunteer Centre	23888	25-Sep-14	4,000.00
5,903	Tairawhiti Community Law Trust	23890	25-Sep-14	4,000.00
6,883	Blue Light Ventures Inc - Gisborne	23892	25-Sep-14	4,000.00
6,827	Equippers Church Hastings	23893	25-Sep-14	3,500.00
7,250	Turanganui Schools Maori Cultural Festival Committee	23894	25-Sep-14	2,250.00
3,496	Prisoners Aid and Rehabilitation Society - Manawatu	23895	25-Sep-14	4,000.00
7,592	Polish Association in New Zealand	23897	25-Sep-14	4,000.00
6,607	Hawke's Bay Road Safety Compliance Trust	23898	25-Sep-14	4,000.00
3,013	Sport Hawke's Bay	23899	25-Sep-14	101,120.00
4,851	Sport Wellington	23900	25-Sep-14	56,320.00
3,202	Manawatu Sports Foundation	23901	25-Sep-14	101,120.00
982	Eastland Sports Foundation Education Trust	23902	25-Sep-14	61,440.00
Total for Eastern And Central				**2,257,450.00**
			Report Totals	**2,257,450.00**

SCHEDULE OF PAYMENTS FROM THE CURRENT ACCOUNT FOR THE MONTH

Payments made in Sep 2014

The following creditor payments were accounted for in the previous month.

CREDITORS	PURPOSE	Payment Method	AMOUNT
AAA Services	Cleaning	dc	$668.84
Aspire Enterprises	Milk	dc	$22.49
Clansman Motel	Trustees' Accommodation	dc	$0.00
Contact Energy	power	dd	$1,295.25
Corporate Trustee Services	fees	dc	$3,485.40
Create Limited	pool assessments	dc	$747.50
Credit Card purchases	staff cards	dd	$4,070.87
Desktop Technology	computer services	dc	$409.69
Elevation Capital	fees	dc	$12,687.50
Forsyth Barr	advisory fees	dc	$12,279.17
Fuji Xerox	Photocopier print charges	dc	$532.31
Gameplan NZ Ltd	APM charges	dc	$5,597.63
Global Leisure Gropup	review - Waikanae Surf Lifesaving	dc	$1,380.00
Hatmar Holdings	Parking	AP	$552.00
Hatmar Holdings	Rent	AP	$4,821.72
Hatmar Holdings	Boardroom / rates / insurance	dc	$1,436.82
Helene McCormick	Catering	dc	$0.00
House of Travel	flights - JB & GM	dc	$1,288.00
Inland Revenue Department	PAYE	dc	$14,703.32
Mobile Finance Manager	Andy Arcus - wages	dc	$540.50
NZ Post	Postage	dc	$916.80
Nimon & Son	bus hiire	dc	$90.00
Philanthropy NZ	membership / workshops	dc	$5,077.25
Pitney Bowes	Monthly lease for franking	AP	$30.48
Red Consultancy	Kelie Jensen - fees	dc	$5,129.00
Telecom	Telephone costs	DD	$1,076.78
Tracta	Advertising / annual report	dc	$15,674.80
Triko Security	Security	dc	$172.50
Warehouse Stationery	Stationery	dc	$87.88
Xplore.Net Solutions	Website	dc	$419.75
Waipawa Buses	bus hire	dc	$520.00
Transfer to imprest		dc	$1,500.00
			$97,214.25
REMUNERATION (includes reimbursement of travel)			
Staff & Trustees	Remuneration (net) paid 1.9.2014	dc	$18,356.30
Staff & Trustees	Remuneration (net) paid 15.9.2014	dc	$17,811.80
Staff & Trustees	Remuneration (net) paid 29.9.2014	dc	$20,212.13
DONATION PAYMENTS			
Donations		dc	$133,600.00
	TOTAL PAYMENTS FOR THE MONTH		**$287,194.48**

Key to Payment Method

AP	Automatic Payment
dc	Direct Credit
DD	Direct Debit
CHQ	Cheque
TT	Telegraphic Transfer

E&CCT ASSET ALLOCATION

AS AT 30th September 2014

CURRENT ASSETS		LIABILITIES		CAPITAL BASE		RESERVES
$157.7m	-	$2.48m	=	$144.53m	+	$10.69m

Benchmark (For Capital Base + maximum 25% in reserves)		Allowable Range	Tactical Target Updated 25th January 2013	Actual Value $m	Percentage of Current Assets	Percentage Variance from target	Variance from tactical target
60%	**GROWTH ASSETS**	**50 - 65%**	**60%**	**$95.8**	**60.8%**	**0.8%**	**$1.3**
30.0%	Shares Forsyth Barr	22.5% - 37.5%	30.0%	$47.8	30.3%	0.3%	$0.5
30.0%	Shares Elevation Capital	22.5% - 37.5%	30.0%	$47.5	30.1%	0.1%	$0.2
0%	Private Equity	0% - 0%	0%	$0.6	0.4%	0.4%	$0.6
35%	**INCOME ASSETS**	**25 - 45%**	**35%**	**$54.9**	**34.9%**	**-0.1%**	**-$0.2**
27.5%	NZ Bonds	20 - 35%	27.5%	$40.0	25.4%	-2.1%	-$3.3
7.5%	Overseas Bonds	5% - 10%	7.5%	$14.9	9.5%	2.0%	$3.1
5%	**LIQUID ASSETS**	**2 - 10%**	**5%**	**$6.8**	**4.3%**	**-0.7%**	**-$1.1**
5%	Self-managed Cash (Incl Hedges & TKP)	2 - 10%	5%	$6.8	4.3%	-0.7%	-$1.1
100%	**TOTAL**		**100%**	**$157.5**	**100.0%**		**$0.0**

Benchmark Allocation –The benchmark allocation reflects the long-term views of the asset structures likely to generate the required investment return to meet the primary objectives. The benchmark allocation assumes a hypothetical "neutral environment", i.e. one in which the Trustees do not have a tactical view that one asset class should be favoured over another or that special action should be undertaken.

Allowable Range -These reflect the normal minimum and maximum holdings for an asset class. The ranges exist to allow for normal market movement so that the Trustees can minimise transaction costs and for short-term tactical decisions.

Tactical Target -This allows the Trustees to exercise a tactical view to favour one asset class over another, e.g. more into fixed interest, less into shares in times of high interest rates, while remaining within the "allowable range" for that asset class. Trustees will re-examine the "tactical target" where the variation between the "tactical target" and the Actual situation is plus or minus 5%.

QUOTES FOR TERM DEPOSITS TRUST

DATE Of Investment **7-Sep-14**

Confirmed

Amount to invest **$2,000,000** $2,000,000

If TD maturing, confirm arrangements and enter deposit into FMIS - bank transactions, bank entry (2200 Principle and 6210 Realised Incom
Give Jill copy of bank print out & batch, insert copy in deskfile.
Often have notice of arrangements at maturity, but not always.

Bank Accepted	**Westpac**
Rate	**4.54%**
Maturity Date	**5-Dec-14**
Number of days	**92** Ask
Account Number	**03 0642 0797656 00**
Dealer	**James**

MUST send confirmation letter after each TD arranged. Finance/Authority letters/E&CCT Bank TD

ben taylor

	ASB	BNZ	ANZ	Westpac	KIWIBANK	HBS Bank
Contact **Telephone**	Joshua Hamblyn 0800 272 332 arthur	James Barnes Ext 46339 **Annette McLeod** 975 5339	Dinah Joll 830 0983	Andrew mark (2) 0800 334 020 client 650681	Mark Barton or Jon Schicker 0800 11 33 15	Jenny Lambie DD 870 9066
Rate Offered	**Nil** **Jake**	**4.52%** **Annette McLeod**	**4.23%** **dinah**	**4.54%** **Virginia**	**4.31%** **Roger & Mark**	**4.23%** **Jenny**
Account to withdraw **Account Number**	Trust Current 03 0642 0797656 00	Trust Current 03 0642 0797656 00	Trust Current 03 0642 0797656 00	Trust Current 03 0642 0797656 00	Trust Current 03 0642 0797656 00	Trust Current 03 0642 0797656 00
				john-treasury	roger	

Richard Wilson
834 3738
Rachel Wilson
878 0846 or 0274299006
Virginia 878 0845

Jenny Lambie
870 9066

Comments for consideration and reason for decision.

Call account balance is $1.15m as at 30 Sep 2014
Hedging reset for Nov 8 2014
Next TD is ANZ $2.5 mill 4th Nov 2014.
Pioneer Capital commitment nothing likely in next 4 weeks
Presently, FBECL has $4.9 million cash available if an emergency.
We have $7 million on Term Deposit.
Donation Creditors stand at $2.25 mill at 30th Sept 2014.
Payments approved last Trust meeting approx $680k

financialmarkets@kiwibank.co.nz

Transaction to be entered in ACCPAC - Bank Transaction, open bank entry, new, write details of Term Deposit, choose cheque,select withdrawal tab, enter GL 2200, add, save, post, go to GL batch list, print, post.

2200 **Cash Self Term Deposit** **$2,000,000.00**

Signed ……………………………………..

Date ………………………

Expected interest on maturity **$22,886.58**

Entered to Schedule Self Managed Investments and maturity date on personal calendar.

Signed ……………………………………..

Date ………………………

SCHEDULE OF SELF MANAGED INVESTMENTS

AS AT 7th OCTOBER 2014

TERM DEPOSITS

Value	Bank	Date Invested	Term	Interest Rate	Maturity Date
$ 2,500,000	ANZ	4-Sep-14	61	4.52%	4/11/2014
$ 2,500,000	BNZ	5-Sep-14	91	4.75%	5-Dec-14
$ 2,000,000	Westpac	7-Oct-14	92	4.54%	7/01/2015
$ 7,000,000	**TOTAL**				

CURRENT ASSETS

Bank	Cashbook	Statement
Westpac Call Account	$1,155,477.97	
Westpac Current*	$354,990.00	$0.00
Westpac Imprest	$1,715.33	
Petty Cash	$131.90	
	$1,512,315.20	

INVESTMENTS WITH NZ BANKS

Policy check - Maximum allowable exposure to any one Bank is the higher of either $6 million or 40% of current assets when current assets are over $15 million.

ASB	$ -	0.0%
BNZ	$ 2,500,000.00	29.4%
ANZ	$ 2,500,000.00	29.4%
Kiwibank	$ -	0.0%
Westpac	$ 2,000,000.00	23.5%
HBS	$ -	0.0%
TOTAL CURRENT ASSETS	**$8,512,315.20**	(excludes accrued interest owed)

PORTFOLIO RECONCILIATION
Eastern & Central Community Trust
30 September 2014

ELEVATION CAPITAL

Cash Reconciliation

	Schedule		NZD
31-Aug-2014		**Opening Balance**	**3,658,038.69**
	2	Capital Invested & Withdrawn	0.00
	3	Interest (RWT exempt)	3,250.48
		Interest (RWT exempt) - paid to ECCT	(5,533.45)
	4	Dividends & Distributions	211,963.19
		Dividends & Distributions - paid to ECCT	(168,244.47)
	5	Fees, Expenses & Fee Rebates	(7,329.31)
		Cash Movement	
	10	Shares	(1,665,037.92)
	6	Cash currency m/e revalation	90,834.13
	7	Term Deposit Maturity	0.00
		FX Transactions Gain/loss	(4,927.71)
30-Sep-2014		**Closing cash**	**2,113,013.63**
		Closing Bank balance	**2,113,013.61**
		Variance	**0.02**

Asset Valuation

	Schedule		NZD
31-Aug-2014		**Opening Valuation**	**46,335,849.20**
	2	Capital Invested & Withdrawn	0.00
	7	Term deposits (incl accrued Interest)	0.00
	8	Cash	2,113,013.61
	9	Shares Valuation*	45,353,061.31
30-Sep-2014		**Closing Valuation**	**47,466,074.91**
		Monthly Change	**1,130,225.71**

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PORTFOLIO RECONCILIATION
Eastern & Central Community Trust
30 September 2014

FORSYTH BARR

Cash Reconciliation

	Schedule		NZD
31-Aug-2014		**Opening Valuation**	**114,225.67**
	2	Capital Invested & Withdrawn	0.00
	3	Interest (RWT exempt)	374.16
		Interest (RWT exempt) - paid to ECCT	(2,179.51)
	4	Dividends & Distributions	224,749.84
		Dividends & Distributions - paid to ECCT	(176,983.42)
	5	Fees, Expenses & Fee Rebates	(7.63)
		Cash Movement	
	10	Shares	0.00
	7	Cash Deposits	0.00
	6	Cash currency m/e revalation	(1,796.32)
30-Sep-2014	11	**Closing cash**	**158,382.80**
		Closing Bank balance	**158,382.78**
		Variance	**0.01**

Asset Valuation

	Schedule		NZD
31-Aug-2014		**Opening Valuation**	**46,154,062.81**
	2	Capital Invested & Withdrawn	0.00
	7	Term deposits (incl accrued Interest)	0.00
		Cash	158,382.78
	4	Dividends & Distributions	
	6	Shares Valuation*	47,599,798.84
30-Sep-2014		**Closing Valuation**	**47,758,181.62**
		Monthly Change	**1,604,118.81**

* Share Valuation is unaudited last trading prices at month end

Eastern & Central Community Trust

In the following table Bank of New Zealand sets out the mark to market value[s] of the transaction[s] stipulated in the request from the Customer on the bases set out in that request

Market Value Date
Tuesday, 30 September 2014

External Deal Ref	Cust Buy Ccy	Cust Buy Amount	Cust Sell Ccy	Cust Sell Amount	Deal Rate	Maturity Date	Reval Rate	MTM Value (NZD)	Spot Rate
CB107745	NZD	7,900,000.00	EUR	4,969,179.00	0.629010	07-Nov-14	0.613130	-203,848.64	0.615590
CB107746	NZD	4,500,000.00	GBP	2,251,575.00	0.500350	07-Nov-14	0.478926	-200,554.46	0.480580
CB107747	NZD	16,500,000.00	USD	13,920,060.00	0.843640	07-Nov-14	0.778832	-1,367,893.53	0.781770
							Total	**-1,772,296.63**	

Eastern & Central Community Trust Inc — 30 September 2014

Summary Information

Fund Name	30/06/2014 Value	Cash Flow	30/09/2014 Value
PIMCO NZD Hedged Global Strategy Fund	12,206,561	2,504,890	14,887,693

Performance

	1 Month	3 Month	FYTD	1 Year	2 Year	3 Year	5 Year	10 Year	Since Inception
Fund - Net of Fees*	(0.34)	1.54	1.54	9.09					5.07
Benchmark**	(0.40)	1.75	1.75	9.52					5.98
Net of Fee Alpha	0.06	(0.21)	(0.21)	(0.43)					(0.91)

Base Currency: USD   Since Inception Date: 14/05/2013   Financial Year Start Date: 30/06/2014

* Fee may vary based on individual fee schedule

** The current benchmark is 70%GlobAggCorpIndx30%GlobAggGovIndxHdgNZ

P I M C O

Market Commentary

- The global economic outlook showed increasing dispersion, with growth in the U.S. solidifying but weakness emerging in Europe and Asia
- As growth and monetary policy expectations diverged, the US dollar staged a strong rally against most currencies
- Geopolitics – in the form of elections, referenda, and armed conflicts – dominated headlines and resulted in higher volatility
- As the Eurozone saw weaker growth and worrying disinflation, the European Central Bank (ECB) stepped in to expand easing measures
- Credit, emerging markets (EM), and commodities all declined while most developed markets (DM) government bonds rallied

Fund Recap

- The following strategies contributed to relative returns:
  - Overweight duration in Spain and Italy as their sovereign spreads over euro-swap rates tightened
  - Long USD exposure contributed as the USD rallied strongly over the quarter
- The following strategies detracted from relative returns:
  - Overweight intermediate US rates detracted as rates rose in this part of the curve
  - Underweight duration in the U.K. and core Eurozone as rates fell
  - Overweight Brazil and Mexico local bonds as yields rose
  - Overweight industrials (energy and raw materials in particular) detracted as spreads widened
  - An overweight to Russian quasi-sovereigns, which underperformed alongside sanction announcements

Market Outlook

- PIMCO envisions growing dispersion in global growth and policy trends over the next 12 months
- The U.S. economy will remain a bright spot as improving employment and a higher capital spending drives GDP growth
- ECB policy will continue to be highly accommodative, supporting risk assets
- In Japan, continued easing will provide support but the focus has shifted to structural reform. Slower growth there and in China will be a headwind for other Asian economies
- Emerging markets (EM) will also slow but there will be increasing differentiation, creating opportunities in select EM countries

Fund Strategy

- Given divergence in growth and policy, the Fund will be underweight duration in DM, focusing on relative value opportunities along individual yield curves
- Favour intermediate range in the U.S., underweight front-end in the U.K., and underweight long-end in the Eurozone core
- Overweight select European peripherals – Italy, Spain and Slovenia – given the ECB's accommodative policies
- Maintain local bond positions in EM such as Mexico, where fundamentals are sound and valuations are attractive
- Focus on bottom-up investment opportunities in the global credit markets, particularly in industries with high barriers to entry
- Favour the banking sector, focusing on the subordinated part of the capital structure of the strongest banks in Europe which stand to benefit from continued sector de-leveraging;
- Given our positive outlook on the U.S. housing recovery we remain overweight to sectors tied to this such as building materials
- Favour the U.S. dollar versus DM currency as growth and monetary policies continue to diverge

Investment Characteristics

Investment Statistics	
Effective Duration	6.0
Benchmark Duration	6.4
Average Maturity	8.4
Average Coupon	4.1
Average Quality	A-
Total Carry	7.4

Quality Breakdown

MV % Portfolio		MV % Benchmark
7	AAA	12
10	AA	22
33	A	33
45	BBB	33
5	Sub Inv Grade	0
100	Total	100

Curve Exposure

Duration Weighted Exposure % Portfolio	Duration Weighted Exposure % Benchmark		Duration Weighted Exposure Portfolio	Duration Weighted Exposure Benchmark
0	0	0-1 years	0	0
5	8	1-3 years	0.3	0.5
11	14	3-5 years	0.7	0.9
29	15	5-7 years	1.7	1.0
12	9	7-8 years	0.7	0.6
21	9	8-10 years	1.3	0.6
22	45	10+ years	1.3	2.9
100	100	Total	6.0	6.4

Regional Breakdown (by currency of settlement)

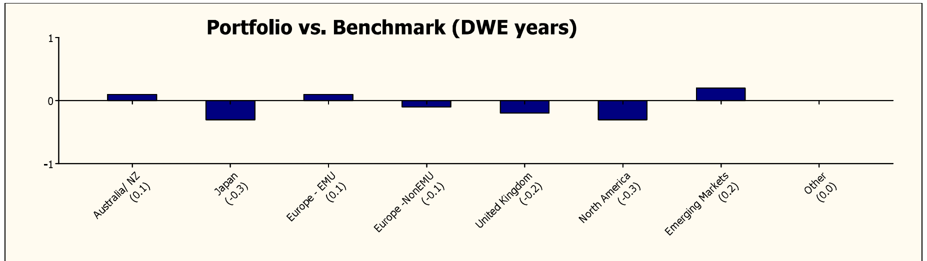
Duration Weighted Exposure% Portfolio	Duration Weighted Exposure% Benchmark		Duration Weighted Exposure Portfolio	Duration Weighted Exposure Benchmark	FX Exposure Portfolio
2.7	0.7	Australia/ NZ	0.2	0.0	97.5
7.2	11.1	Japan	0.4	0.7	-1.5
25.0	22.0	Europe - EMU	1.5	1.4	-1.0
0.0	1.0	Europe -NonEMU	0.0	0.1	0.0
7.9	9.7	United Kingdom	0.5	0.6	0.0
53.7	54.2	North America	3.2	3.5	4.3
3.5	0.6	Emerging Markets	0.2	0.0	0.7
0.0	0.7	Other	0.0	0.0	0.0
100.0	100.0	Total	6.0	6.5	100.0

Sector Breakdown

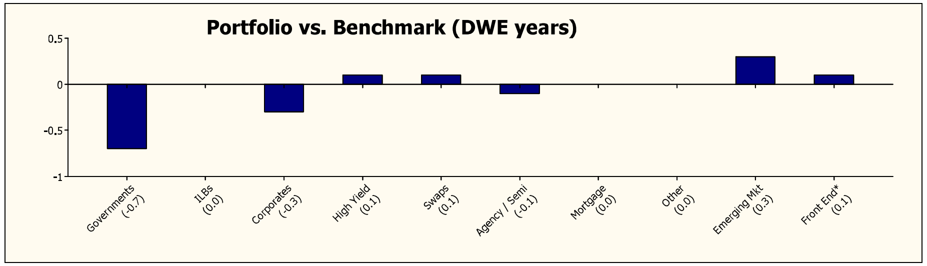
Duration Weighted Exposure % Portfolio	Duration Weighted Exposure % Benchmark		Duration Weighted Exposure Portfolio	Duration Weighted Exposure Benchmark
20	29	Governments	1.2	1.9
0	0	ILBs	0.0	0.0
65	65	Corporates	3.9	4.2
2	0	High Yield	0.1	0.0
2	0	Swaps	0.1	0.0
1	3	Agency / Semi	0.1	0.2
0	0	Mortgage	0.0	0.0
0	0	Other	0.0	0.0
9	3	Emerging Mkt	0.5	0.2
1	0	Front End*	0.1	0.0
100	100	Total	6.0	6.5

* Front End includes all securities that are investment grade and have a duration <= 1 year

Regional Breakdown Variance



Sector Exposure



For more information, please contact PIMCO Australia at 9279 1771

PIMCO

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PIMCO NZD Hedged Global Strategy Fund — 30 September 2014

Investment Characteristics

Investment Statistics	
Effective Duration	6.0
Benchmark Duration	6.5
Average Maturity	8.4
Average Coupon	4.1
Average Quality	A-
Total Carry	7.4

Quality Breakdown		
MV%		MV%
Portfolio		Benchmark
7	AAA	12
10	AA	22
33	A	33
45	BBB	33
5	Sub Inv Grade	0
100	Total	100

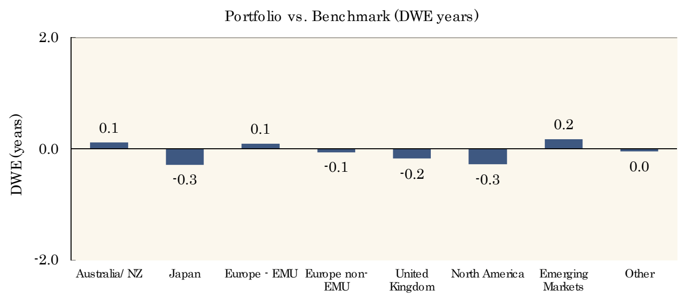
Curve Exposure				
Duration Weighted Exposure %			Duration Weighted Exposure	
Portfolio	Benchmark		Portfolio	Benchmark
1	0	0-1 years	0.1	0.0
5	8	1-3 years	0.3	0.5
11	14	3-5 years	0.6	0.9
29	15	5-7 years	1.7	1.0
12	9	7-8 years	0.7	0.6
21	9	8-10 years	1.2	0.6
22	44	10+ years	1.3	2.9
100	100	Total	6.0	6.5

Regional Breakdown (by currency of settlement)					
Duration Weighted Exposure %			Duration Weighted Exposure		FX Exposure
Portfolio	Benchmark		Portfolio	Benchmark	Portfolio
2.7	0.7	Australia/ NZ	0.2	0.0	97.5
7.2	11.1	Japan	0.4	0.7	-1.5
25.0	21.7	Europe - EMU	1.5	1.4	-1.0
0.0	0.9	Europe non-EMU	0.0	0.1	0.0
7.9	10.1	United Kingdom	0.5	0.6	0.0
53.7	54.2	North America	3.2	3.5	4.3
3.5	0.5	Emerging Markets	0.2	0.0	0.7
0.0	0.7	Other	0.0	0.0	0.0
100	100	Total	6.0	6.5	100.0

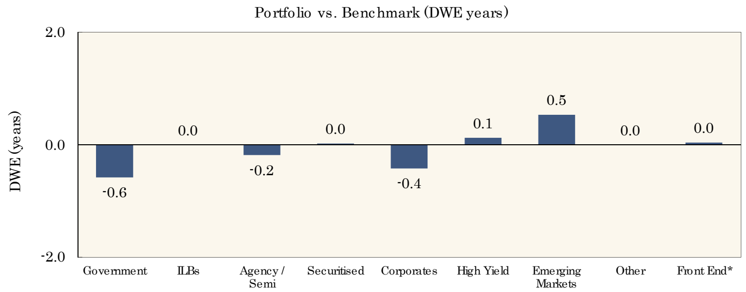
Sector Breakdown				
Duration Weighted Exposure %			Duration Weighted Exposure	
Portfolio	Benchmark		Portfolio	Benchmark
21	28	Government	1.2	1.8
0	0	ILBs	0.0	0.0
62	64	Corporates	3.7	4.1
2	0	High Yield	0.1	0.0
0	3	Agency / Semi	0.0	0.2
0	0	Securitised	0.0	0.0
0	0	Other	0.0	0.0
14	5	Emerging Markets	0.8	0.3
1	0	Front End*	0.0	0.0
100	100	Total	6.0	6.5

* Front End includes all securities that are investment grade and have a duration <= 1 year

Regional Breakdown Variance

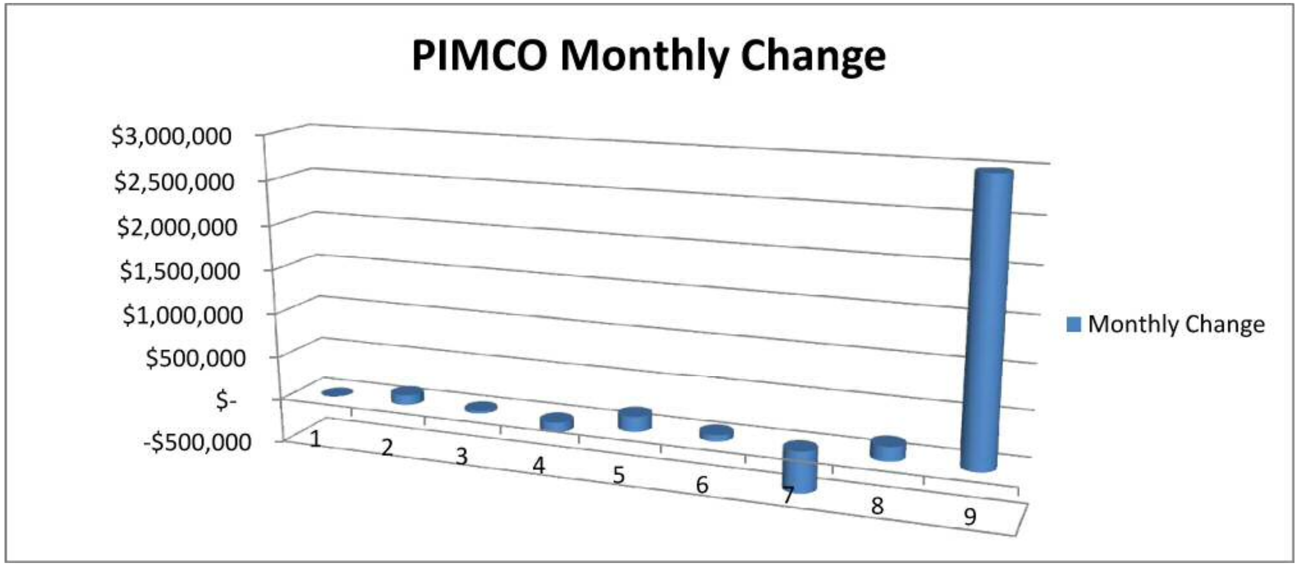


Sector Exposure Variance



PIMCO MONTHLY COMPARISON REPORT

Month	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
$/Unit	959.0312	968.1524	970.3525	961.5154	975.054	980.761	942.3370	956.6396	955.4342
# Units	12,446	12,446	12,446	12,446	12,446	12,446	12,466	12,446	15,582
Market Value	$11,936,242	$12,049,766	$12,077,149	$11,967,161	$12,135,664	$12,206,695	$11,747,324	$11,906,336	$14,887,576
Monthly Change	$ -	$ 113,524	$ 27,383	-$ 109,988	$ 168,503	$ 71,030	-$ 459,371	$ 159,013	$ 2,981,239



Please Note; $3 million was davanced to PIMCO at the end of August, beginning of September. If this is factored out the net change for the month was -$18,761

Eastern & Central Community Trust Inc

Monthly Report for September 2014

Transaction Summary

Eastern & Central Community Trust Inc

The bond purchases over the period were as follows:

Issuer	Maturity Date	Face Value	Cost[1,3]	Yield

Nil

The bond sales over the period were as follows:

Issuer	Maturity Date	Face Value	Proceeds[2]	Yield

Nil

The bond maturities over the period were as follows:

Issuer	Maturity Date	Face Value	Coupon

Nil

The cash purchases over the period were as follows:

Issuer	Maturity Date	Face Value	Cost[1,3]	Yield

Nil

[1] Cost includes brokerage, if any
[2] Proceeds are less brokerage, if any
[3] Cost will be different to that shown on the portfolio valuation – the difference being accrued interest.

Compliance Report

Eastern & Central Community Trust Inc

We confirm that we hold title, in the name of Eastern & Central Community Trust Incorporated, for all the bond securities listed in this report.

We confirm that all cash at call is held in trust for the Eastern & Central Community Trust Incorporated.

All incidences of non-compliance with the mandate have been highlighted in **RED** in the portfolio summary. Trustees have been advised of this non-compliance and acknowledge their acceptance of these.

Commentary

During **September**, the following occurred:

- Nil

During **October** the following will occur:

- On 8 October the rate on the Rabobank perpetual securities will be reset at the prevailing 1 year swap rate plus 0.76% pa;
- On 15 October the rate on the Nuffarm Finance perpetual securities will be reset at the prevailing 6 month bank bill rate in Australia plus a margin of 3.9% pa;
- On 16 October the rate on the Sky TV annual reset bonds will be reset at the prevailing 1 year swap rate plus a margin of 0.65% pa.

Key Portfolio Information

Eastern & Central Community Trust Inc

Bond Credit Analysis:

Long-Term Credit Rating	Portfolio Holding $ Face Value	%
AAA	$0	0.0%
AA+	$0	0.0%
AA	$0	0.0%
AA-	$0	0.0%
A+	$0	0.0%
A	$0	0.0%
A-	$5,400,000	15.8%
BBB+	$8,500,000	24.8%
BBB	$10,875,000	31.7%
BBB-	$2,426,000	7.1%
BB+	$3,678,000	10.7%
BB	$0	0.0%
BB-	$0	0.0%
Not Rated	$3,374,532	9.9%
	$34,253,532	**100%**
Average Weighted Credit:		**BBB**

Bond Maturity Analysis:

Maturity Date	Portfolio Holding $ Face Value	%
2014	$3,429,532	10.0%
2015	$3,750,000	10.9%
2016	$6,900,000	20.1%
2017	$5,276,000	15.4%
2018	$1,653,000	4.8%
2019	$8,245,000	24.1%
2020	$0	0%
2021	$5,000,000	14.6%
	$34,253,532	**100%**
Average Weighted Maturity (Yrs):	**4.39**	
Duration:	**2.62**	

Portfolio Reconciliation
Eastern & Central Community Trust Inc

1. Market Value (Marked to Market)

Opening Value	$39,853,731.43
Contributions / (Withdrawals)	$0.00
Adjusted Opening Value	$39,853,731.43
Closing Value	**$40,075,891.38**
Monthly Change	$222,159.95

2. Capital Movements for Month

Opening Value	$39,287,314.75
Contributions / (Withdrawals)	$0.00
Plus Interest Received	$305,938.34
Adjusted Opening Value	$39,593,253.09
Closing Value	**$39,618,566.33**
Monthly Change	$25,313.24
Realised Gains	$0.00
Unrealised Change in Portfolio Value	$25,313.24

3. Accrued Interest for Month

Opening Value	$566,416.68
Closing Value	$457,325.05
Monthly Change	($109,091.63)

4. Interest Received for Month

Coupon Income Received	$305,938.34
Realised Income on Sale	$0.00
Total Realised Interest Received	$305,938.34

5. Gain / (Loss) on Sale for Month

Total Realised Gain / (loss) over Cost	$0.00
Less Realised Interest on Sale	$0.00
Realised Gain / (loss) on Sale	$0.00
Realised Gain to last Month	($2,079.65)
Closing Realised Gain	($2,079.65)
Monthly Change	$0.00

6. Realised / Unrealised Income Report for Month

Realised Interest	$305,938.34
Realised Gain / (loss) on sale	$0.00
Unrealised Change in Accrued Interest	($109,091.63)
Unrealised Change in Portfolio Value	$25,313.24

7. Year To Date Analysis

Change in Market Value	$1,774,658.14
Realised Interest	$1,310,714.51
Realised Gain / (loss) on sale	($2,079.65)
Change in Accrued Interest	($56,592.72)
Unrealised Change in Bond Value	$522,616.00
Change in Capital Value (incl. realised gains / losses)	$520,536.35

8. Accrued Management Fees $7,211 (incl. GST @ 4.2%)

Eastern & Central Community Trust

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Reval Date:	30-Sep-14
AUD:NZD	0.8919

Issuer:	Credit	Maturity Date	Coupon	Face Value	Exposure Limit	Exposure Available	Cost	Market Value	Capital Value	Purchase Yield	Reval Yield	Capital Appreciation	Accrued Interest	Annual Cpn Income	Duration	Price Per $100
Reset Securities																
Nufarm Finance[3]	B	15-Oct-14	6.63%	$1,429,532	$2,000,000	**$570,468**	$1,475,694.44	**$1,166,625.00**	$1,146,803.60	6.63%	**6.63%**	-$328,890.84	$19,821.40	$94,731	0.0	
Rabobank [1]	A-	8-Oct-14	3.71%	$1,000,000	$3,500,000	**$2,500,000**	$1,000,000.00	**$935,000.00**	$926,537.23	3.71%	**3.71%**	-$73,462.77	$8,462.77	$37,075	0.0	
Sky TV [2]	NR	16-Oct-14	3.62%	$1,000,000	$1,000,000	**-$250,000**	$995,995.00	**$994,100.00**	$977,582.51	3.62%	**3.62%**	-$18,412.49	$16,517.49	$36,200	0.0	
Credit Agricole[4]	BBB-	19-Dec-17	5.04%	$500,000	$2,500,000	**$2,000,000**	$500,000.00	**$405,000.00**	$404,238.46	5.04%	**5.04%**	-$95,761.54	$761.54	$25,200	3.0	
ANZ	BBB+	18-Apr-18	5.28%	$500,000	$2,500,000	**$2,000,000**	$500,000.00	**$507,500.00**	$495,598.36	5.28%	**5.28%**	-$4,401.64	$11,901.64	$26,400	3.2	
Hybrid Securities																
Genesis Capital Bonds[5]	BB+	15-Jul-18	6.19%	$958,000	$2,000,000	**$42,000**	$1,022,535.58	**$975,244.00**	$962,836.08	6.53%	**6.53%**	-$59,699.50	$12,407.92	$59,300	3.4	
Fixed Rate Bonds																
Goodman Property	BBB+	19-Jun-15	7.75%	$2,000,000	$2,000,000	**$0**	$2,016,412.80	**$2,086,437.87**	$2,042,817.66	7.60%	**4.67%**	$26,404.86	$43,620.22	$155,000	0.7	$104.32
Powerco	BBB	29-Jun-15	6.53%	$750,000	$2,000,000	**$0**	$714,584.56	**$760,817.46**	$760,682.91	7.75%	**4.58%**	$46,098.35	$134.55	$48,975	0.7	$101.44
Infratil	NR	15-Nov-15	8.50%	$500,000	$1,000,000	**$305,000**	$500,000.00	**$521,826.46**	$516,513.96	8.50%	**5.45%**	$16,513.96	$5,312.50	$42,500	1.1	$104.37
TrustPower	BBB*	15-Dec-15	8.40%	$500,000	$2,000,000	**-$750,000**	$500,000.00	**$520,349.73**	$518,618.96	8.40%	**5.20%**	$18,618.96	$1,730.77	$42,000	1.2	$104.07
Spark	A-	22-Mar-16	7.04%	$2,400,000	$2,500,000	**$100,000**	$2,400,000.00	**$2,488,878.74**	$2,485,144.81	7.04%	**4.53%**	$85,144.81	$3,733.92	$168,960	1.4	$103.70
Fletcher Building	BBB*	15-May-16	7.75%	$1,500,000	$2,000,000	**$0**	$1,500,000.00	**$1,607,079.06**	$1,563,485.31	7.75%	**5.00%**	$63,485.31	$43,593.75	$116,250	1.5	$107.14
Genesis Energy	BBB+	15-Sep-16	7.19%	$1,000,000	$2,000,000	**$42,000**	$1,005,116.26	**$1,044,937.05**	$1,041,959.84	7.12%	**4.91%**	$36,843.58	$2,977.21	$71,850	1.9	$104.49
Auckland Int Airport	A-	15-Nov-16	8.00%	$2,000,000	$2,500,000	**$500,000**	$2,000,000.00	**$2,200,192.90**	$2,140,192.90	8.00%	**4.50%**	$140,192.90	$60,000.00	$160,000	1.9	$110.01
Meridian	BBB+	16-Mar-17	7.55%	$1,000,000	$2,000,000	**$1,000,000**	$1,000,000.00	**$1,061,259.31**	$1,058,339.42	7.55%	**5.00%**	$58,339.42	$2,919.89	$75,500	2.3	$106.13
Vector	BBB-	15-Jun-17	7.00%	$1,926,000	$2,000,000	**$74,000**	$1,943,434.57	**$2,039,410.46**	$1,999,995.87	6.82%	**5.45%**	$56,561.30	$39,414.59	$134,820	2.5	$105.89
Powerco	BBB	28-Sep-17	6.74%	$1,250,000	$2,000,000	**$0**	$1,158,448.47	**$1,299,647.43**	$1,299,184.52	8.00%	**5.31%**	$140,736.05	$462.91	$84,250	2.7	$103.97
Kiwibank	BB+	15-Dec-17	5.80%	$600,000	$1,000,000	**$150,000**	$600,000.00	**$607,001.18**	$596,827.41	5.80%	**5.98%**	-$3,172.59	$10,173.77	$34,800	2.9	$101.17
Infratil	NR	15-Nov-18	6.85%	$195,000	$1,000,000	**$305,000**	$195,000.00	**$202,680.57**	$201,010.88	6.85%	**6.00%**	$6,010.88	$1,669.69	$13,358	3.6	$103.94
Fletcher Building	BBB*	15-Mar-19	6.45%	$500,000	$2,000,000	**$0**	$500,000.00	**$508,060.41**	$506,724.08	6.45%	**6.10%**	$6,724.08	$1,336.33	$32,250	3.9	$101.62
Contact Energy	BBB	15-May-19	5.80%	$1,375,000	$2,000,000	**$625,000**	$1,375,000.00	**$1,399,993.75**	$1,390,025.00	8.00%	**5.53%**	$15,025.00	$9,968.75	$79,750		
ASB	BBB+	15-Jun-19	6.65%	$2,000,000	$2,000,000	**$0**	$2,000,000.00	**$2,081,753.88**	$2,076,273.11	6.65%	**5.72%**	$76,273.11	$5,480.77	$133,000	4.1	
Mighty River Power	BB+	11-Jul-19	6.85%	$1,870,000	$2,000,000	**$130,000**	$1,870,000.00	**$1,956,724.18**	$1,928,529.35	6.85%	**6.09%**	$58,529.35	$28,194.82	$128,095	4.1	
Kiwibank	BB+	15-Jul-19	6.61%	$250,000	$1,000,000	**$150,000**	$250,000.00	**$261,341.90**	$257,884.22	6.61%	**5.85%**	$7,884.22	$3,457.68	$16,525	4.1	
Trustpower	BBB*	15-Sep-19	6.75%	$2,250,000	$2,000,000	**-$750,000**	$2,250,000.00	**$2,318,395.04**	$2,312,136.46	6.75%	**6.10%**	$62,136.46	$6,258.59	$151,875	4.2	$103.04
Sky TV	NR	31-Mar-21	6.25%	$250,000	$1,000,000	**-$250,000**	$250,000.00	**$256,152.58**	$252,288.79	6.25%	**5.79%**	$2,288.79	$3,863.79	$15,625	5.4	$102.46
Wellington Int. Airport	BBB+	15-May-21	6.25%	$2,000,000	$2,000,000	**$0**	$2,000,000.00	**$2,117,848.01**	$2,070,973.01	6.25%	**5.60%**	$70,973.01	$46,875.00	$125,000	5.4	$105.89
Kiwi Income Property	BBB*	20-Aug-21	6.15%	$750,000	$2,000,000	**$1,250,000**	$750,000.00	**$769,938.07**	$764,799.14	6.15%	**5.80%**	$14,799.14	$5,138.93	$46,125	5.6	$102.66
Chch Int. Airport	BBB	4-Oct-21	6.25%	$2,000,000	$2,000,000	**$0**	$2,014,084.42	**$2,067,332.84**	$2,006,198.96	6.13%	**5.65%**	-$7,885.46	$61,133.88	$125,000	5.6	$103.37
				$34,253,532.46			**$34,286,306.10**	**$35,161,527.87**	**$34,704,202.82**	**6.80%**	**5.33%**	**$417,896.72**	**$457,325.05**	**$2,280,414**	**2.62**	

[1] Rabobank bonds mature on 8 October 2037 but the interest rate is reset annually at 0.76% over the prevailing 1 yr swap rate

[2] Sky TV bonds mature on 16 October 2016 but the interest rate is reset annually at 0.65% over the prevailing 1 yr swap rate

[3] Nufarm Finance are perpetual securities are are denominated in A$. They are expressed in NZ$ (face value is NZ$1,275,000) in this report and the interest rate is reset semi-annually at 3.90% over the prevailing 6 mth bank bill rate in Australia

[4] Credit Agricole bonds are perpetual securities but the interest rate is reset each five years at 1.90% over the prevailing 5 yr swap rate

[5] Genesis Capital bonds mature on 15 July 2041 but the interest rate is reset each five years at 4.12% over the prevailing 5 yr swap rate

* Denotes ESAW credit assessment

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Eastern & Central Community Trust

FORSYTH BARR | ESAM CUSHING

Trust Cash Portfolio

Date: 30-Sep-14

Name	Credit	Purchase Date	Maturity Date	Number of Days	Maturity Value	Cost	Accrued Interest	Current Value	Yield
					$0.00	$0.00	$0.00	$0.00	
Funds at Call						$4,914,363.51	$0.00	$4,914,363.51	4.00%
						$4,914,363.51	$0.00	$4,914,363.51	4.00%

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Report type:	Financial information papers
Recommendation:	The Executive notes financial advisor’s monthly report of the Trust Investment Portfolio as at 30th September 2014.
Agenda item no:	7
Subject:	Investment Portfolio Report
Responsible for the report:	General Manager

Purpose of report:	To inform the Executive of where the funds of the Board are invested, the overall performance of the diversified investment portfolio and the current asset allocation and compare performance against budget and agreed benchmarks.

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MCA - actuaries & consultants -

Investment monitoring

report & analysis to 30 September 2014

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1. **Overall Trust return (%)**

	Month	Year-to-date (6 months)
Income return	0.49%	3.17%
Market movement	0.62%	3.72%
Total return	1.11%	7.00%

2. **Summarised accounts ($)**

		Month		Year-to-date
Assets at start		153,150,844		150,049,641
Net cash flow		2,713,038		(2,850,934)
Income received/ (paid)	749,697		4,791,915	
Growth gains/ (losses)	958,281		5,581,239	
Total investment gains/ (losses)		1,707,978		10,373,153
Assets at end		157,571,861		157,571,861
Income sector assets at end				63,505,459 (40.3%)
Growth sector assets at end				94,066,402 (59.7%)

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3. **Strategy - current month**
- The investment allocation to each sector is within ± 2.6% of the benchmark asset allocation.
- Listed shares is 1.7% below the benchmark, and Cash is 2.6% above the benchmark.
- The latest hedging contract position of overseas shares was: 50% hedged to Euro, USD and GBP; 0% hedged to AUD.

4. **Market movements - current month**
- Positive: Cash, NZ bonds, Listed shares, Overseas bonds.
- Negative: Nil

5. **Investment managers' performance (relative to market indices)**
- Positive: NZ bonds.
- Negative: Cash , Overseas bonds, Listed shares.

6. **Current issues**

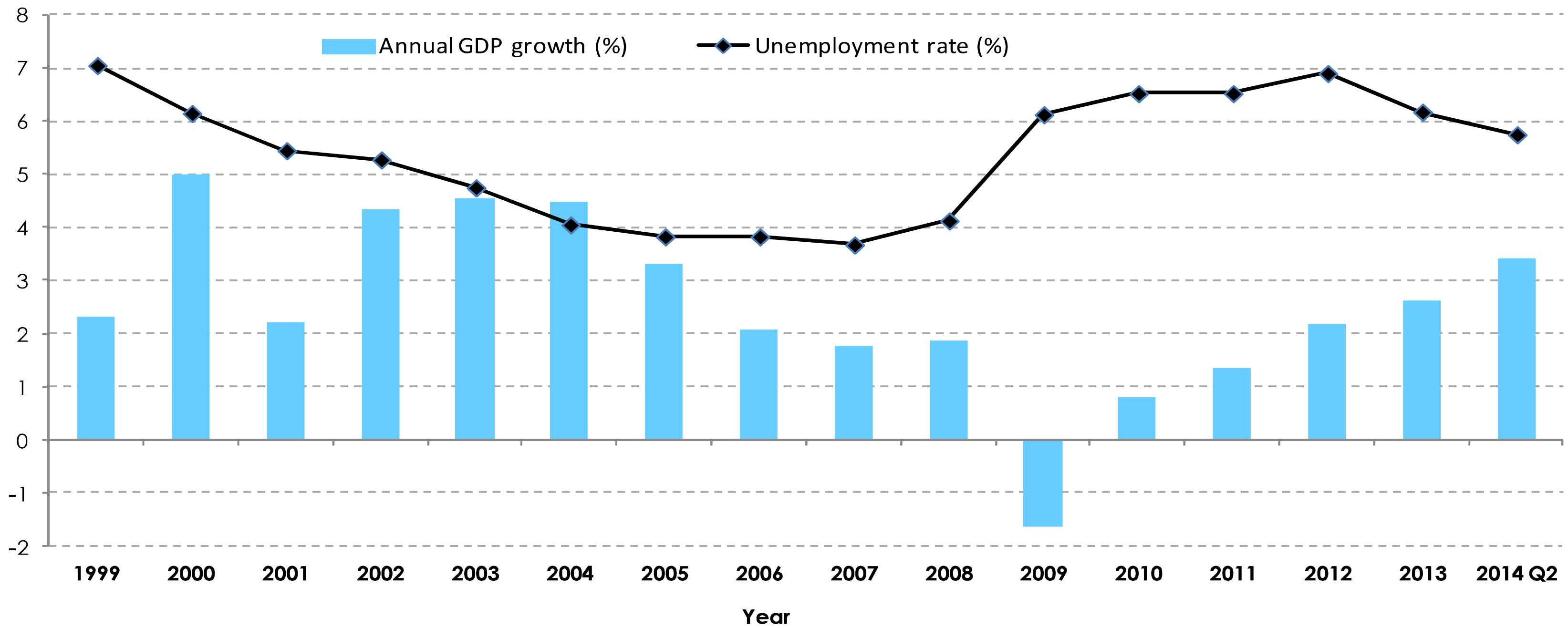
Environment

The environment continues to be a low interest rate, low overall inflation and low economic growth environment. We expect this to continue for the foreseeable future (next 5 to 10 years) driven by the demographics (ageing of the baby boomers), the debt levels of major western governments and the fiscal deficits of US, Japan, UK and Europe, made worse through derivatives.

Current issues

- The New Zealand economy - annual GDP growth vs. unemployment rate

One key measure of the health of an economy is the unemployment rate. This combined with the relative change in the GDP provides an insight into the state of the economy.



The above graph illustrates that unemployment and GDP growth often move in the opposite directions. Unemployment is considered to be countercyclical, as it rises when the economy is deteriorating. In 2009, the unemployment rate rose sharply as the NZ economy contracted on global financial woes.

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Objectives

The investment policy objectives of the Trust are to:

Return

- achieve a growing level of income to fund the budgeted grants and operating costs each year.

- grow the capital base over the long term, to protect the capital and grants against the impact of inflation.

Risk

- to generate sufficient actual income each year to let the Trust donate 4% of the adjusted capital base at the start of the year and to meet the Trust's costs. $6.8m is budgeted for 2014/ 15.

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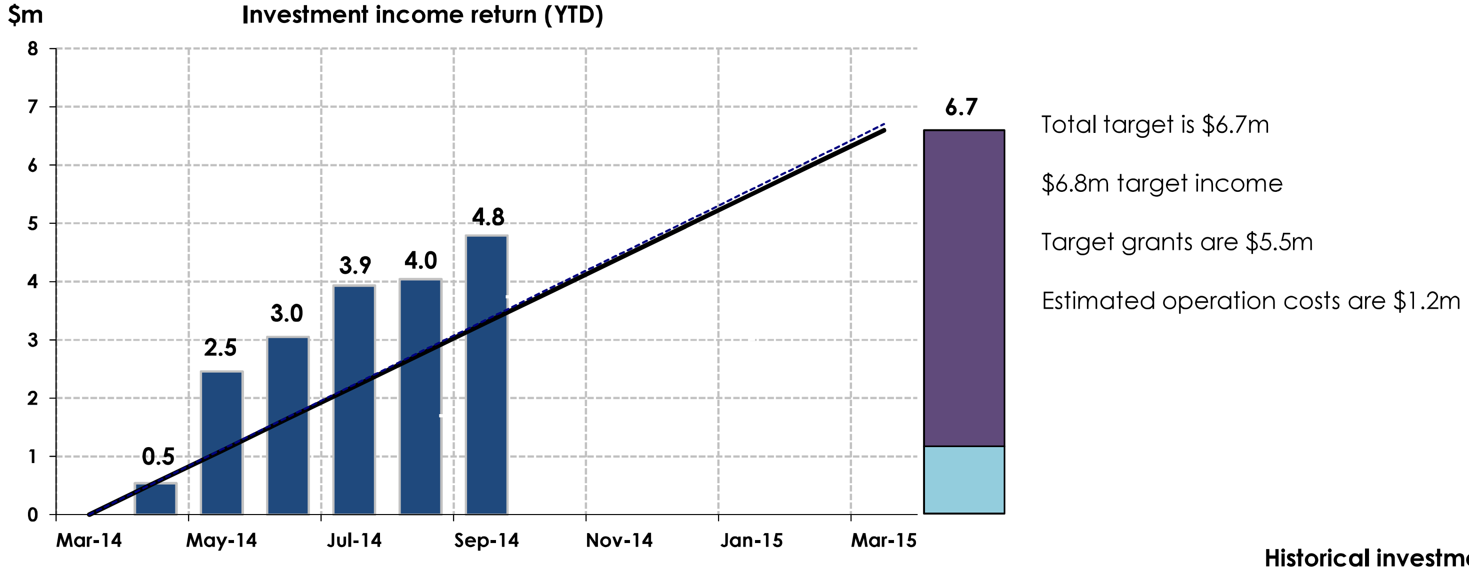
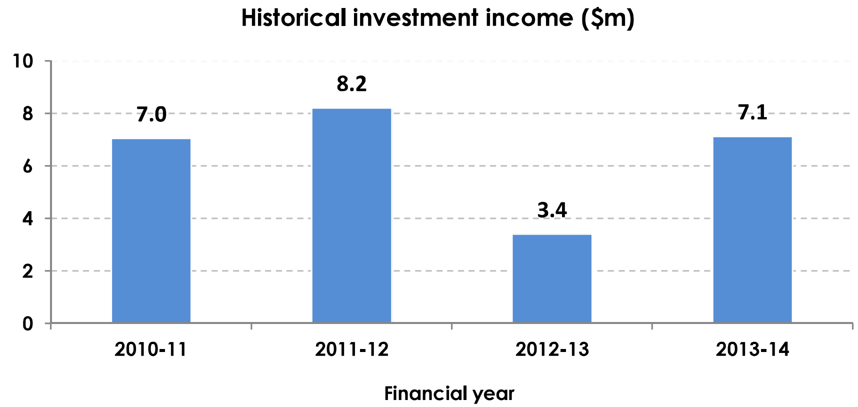
Objective - funding $5.5m in grants + $1.2m operation costs ($6.7m in total)

The objective is to generate investment income which, when supplemented by the cash assets, will let the Trust make grants at the budgeted level and to meet the operational costs. Any budgeted expenditure not met from the investment income is funded from cash. The 2014/ 2015 target grants and operation costs are $6.7m. The budgeted investment income is $6.8m.

The results, relative to the objective and the budget for the year-to-date, are:





The income comes from interest, coupons, dividends and currency hedging settlements. Details of the source of the income by sector are on page 3.

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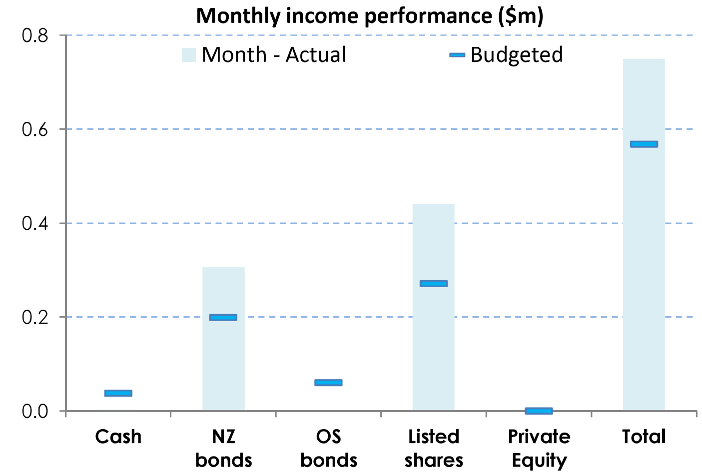
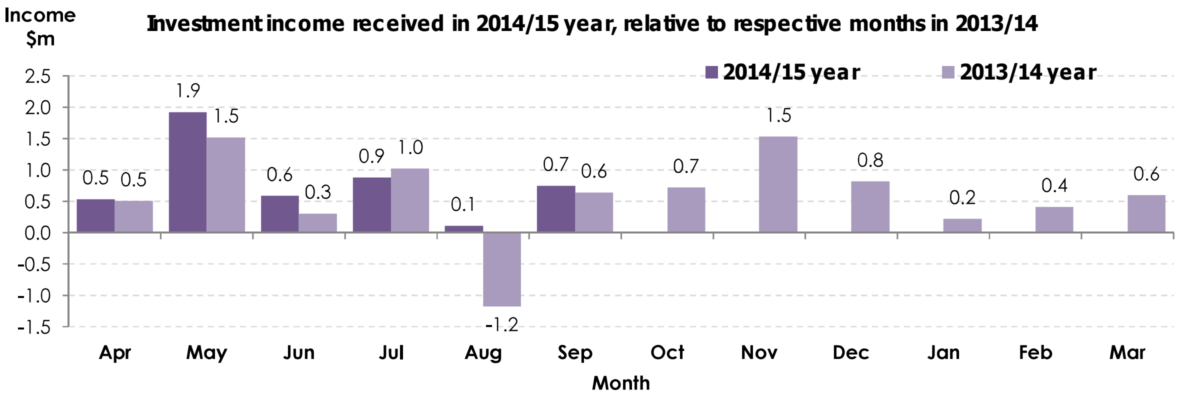
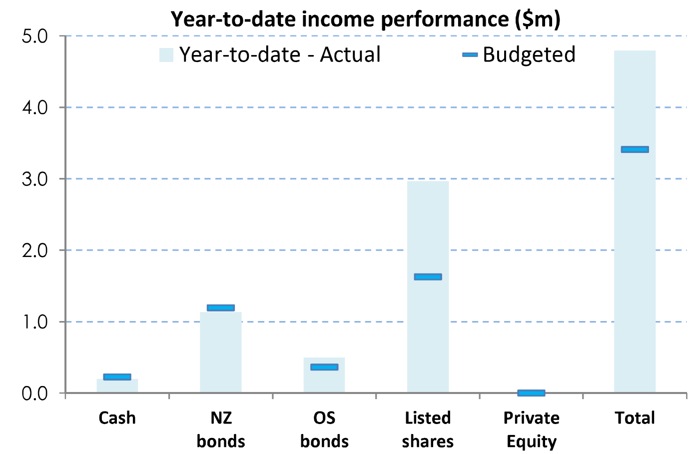
Objective - funding $5.5m in grants + $1.2m operation costs

	Cash	NZ bonds	OS bonds	Listed shares	Private Equity	Total
Assets: 1 April 2014	10.81	39.80	12.08	86.75	0.61	150.05
Assets for income budget	10.81	39.80	12.08	86.75	0.61	150.05
Expected income return (%)	4.2%	6.0%	6.0%	3.8%	0.0%	4.5%
Expected income return ($m)	0.45	2.39	0.72	3.25	0.00	6.82
Monthly						
Actual	0.00	0.31	0.00	0.44	0.00	0.75
Budget	0.04	0.20	0.06	0.27	0.00	0.57
Year-to-date						
Actual	0.19	1.13	0.50	2.97	0.00	4.79
Budget	0.23	1.19	0.36	1.63	0.00	3.41







Note: The monthly budget is assumed to be 1/ 12th of the annual level.

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Allocation of capital & investment strategy

The assets of the Trust are split between cash, bonds and shares. The split is designed to achieve the return objectives of the Trust to support the grants policy. Each class of asset has a different purpose and a different pattern of returns. The resulting asset mix is the investment strategy of the Trust.

The allocation of capital is:

- $10m is targeted at cash to provide liquidity;

- $50m at bonds to provide cash flow over the next 10 years, to fund the grants as required;

- The balance is allocated to shares to provide long-term growth. Of the shares, up to $20m is available for private equity.

Investment strategy - by investment asset type

The investment strategy should be looked at in terms of the split of the current assets relative to the purpose, the benchmark, the benchmark applied to the capital base and the benchmark applied to 125% of the capital base.

	Cash	Bonds	Shares	Total
Purpose	Liquidity Certainty Short-term	Income Reduced volatility Medium-term	Inflation protection Growth Long-term	Current grants Intergenerational Equity
Benchmark ($)	$10.00m	$50.00m	$97.57m	$157.57 m
Benchmark (%)	6.3%	31.8%	62.0%	100.0%
Current assets vs benchmark				
Current assets	$13.46 m	$50.05 m	$94.07 m	$157.57 m
Benchmark assets	$10.00 m	$50.00 m	$97.57 m	$157.57 m
Excess (shortfall)	$3.46 m	$0.05 m	-$3.51 m	$0.00 m
Current assets vs capital base				
Current assets	$13.46 m	$50.05 m	$94.07 m	$157.57 m
Capital base	$10.00 m	$50.00 m	$82.13 m	$142.13 m
Excess (shortfall)	$3.46 m	$0.05 m	$12.54 m	$15.44 m
Current assets vs 125% x capital base				
Current assets	$13.46 m	$50.05 m	$94.07 m	$157.57 m
Target assets	$10.00 m	$50.00 m	$117.66 m	$177.66 m
Excess (shortfall)	$3.46 m	$0.05 m	$23.59 m	$20.09 m

Notes:
1. For the target asset levels, the cash holdings should include the undistributed distribution a/c.
2. The allocation to bonds is below the optimal level for 125% x Capital base.
3. The allocation to shares/property is below the benchmark level on each basis, reflecting the general downturn in the markets over the last 6 years.
4. The capital base (i.e. $142.13m) represents the inflation adjusted original capital base set in April 1997 (i.e. $90m) and should, in addition, include the undistributed grants reserve. The current assets should ideally exceed the value of these.

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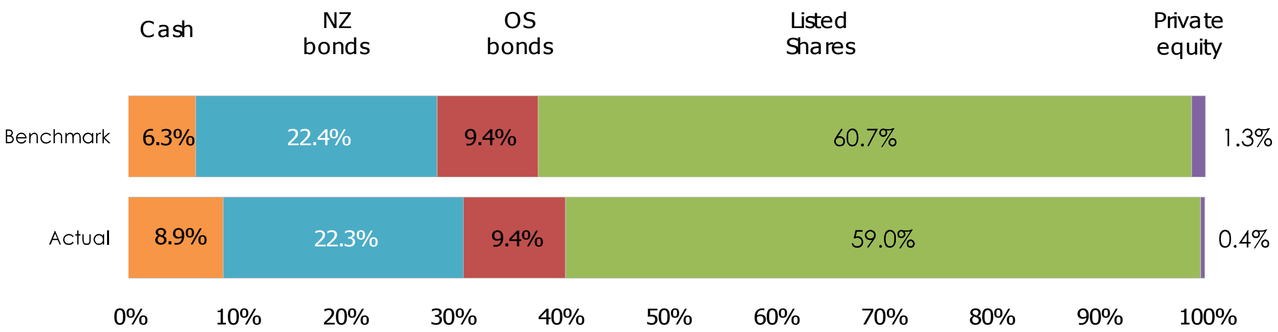
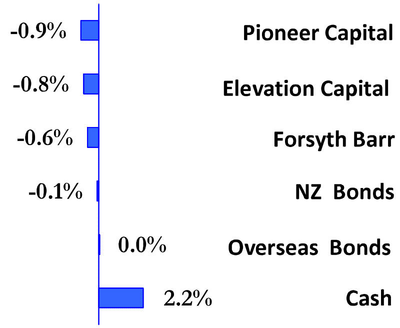
Investment strategy - by manager and asset type

	Listed shares	Private equity	Bonds	Cash	Total	Actual $	Actual %
Growth							
Listed shares							
Elevation Capital	$45,353,061			$2,113,014	$47,466,075	$47.47m	30.1%
Forsyth Barr	$47,599,799			$158,383	$47,758,182	$47.76m	30.3%
Private equity							
Pioneer Capital		$614,442			$614,442	$0.61m	0.4%
						$95.84m	**60.8%**
Income							
NZ bonds			$35,161,528		$35,161,528	$35.16m	22.3%
Overseas bonds			$14,887,693		$14,887,693	$14.89m	9.4%
						$50.05m	**31.8%**
Cash							
Trust				$8,541,874	$8,541,874	$8.54m	5.4%
Forsyth Barr Esam Cushing				$4,914,364	$4,914,364	$4.91m	3.1%
FX Overlay[1]				-$1,772,297	-$1,772,297	-$1.77m	-1.1%
						$11.68m	**7.4%**
Total	$92,952,860	$614,442	$50,049,221	$13,955,337	$157,571,861		
Current allocation (%)	**59.0%**	**0.4%**	**31.8%**	**8.9%**	**100.0%**		
Difference from benchmark	-1.7%	-0.9%	0.0%	2.6%			
Benchmark	**60.7%**	**1.3%**	**31.8%**	**6.3%**	**100.0%**		
Indices used for comparison	MSCI world net div (currency unhedged)	NZX 50 index	ANZ Corp A grade/Citigroup WGBI index	NZX call index			



Position from benchmark



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Investment returns & currency

This section summarises the overall Trust's returns, the managers' returns by sector.

A summary on the current currency exposure levels is also given.

Trust performance - current year and historically

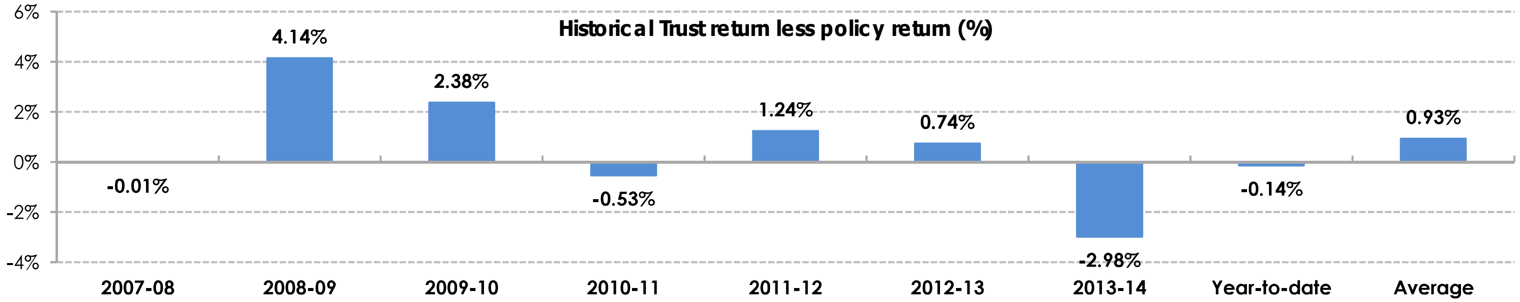
The "Trust return" is the overall performance of the Trust and includes both the income and the change in the market value of the assets. The "policy return" is the return of the Trustees' investment policies in the context of what happened in the investment markets. Details of the returns of the different investment market sectors are shown on page 18 and details of the indices are on page 32.

For the year-to-date, the Trust has achieved a total return of 7.00%, which was 0.14% below the policy return. The 0.14% represents a Trust return of $0.87m, below what the policy return achieved.

	Trust return (%)	Policy return (%)	Difference (%)	Trust ($m)	Policy ($m)	Difference ($m)
September-14	1.11%	1.17%	(0.06%)	$1.71	$1.84	($0.13)
Year-to-date	7.00%	7.13%	(0.14%)	$10.37	$11.24	($0.87)
March-15						
February-15						
January-15						
December-14						
November-14						
October-14						
September-14	1.11%	1.17%	(0.06%)	$1.71	$1.84	($0.13)
August-14	1.57%	2.23%	(0.65%)	$2.40	$3.41	($1.01)
July-14	0.68%	0.48%	0.20%	$1.04	$0.74	$0.30
June-14	0.00%	0.05%	(0.05%)	($0.06)	$0.08	($0.14)
May-14	1.48%	1.92%	(0.43%)	$2.27	$2.93	($0.66)
April-14	2.01%	1.10%	0.91%	$3.01	$1.65	$1.36

Trust performance - Historical

	Trust (%)	Policy (%)	Difference (%)
Year-to-date	7.00%	7.13%	(0.14%)
2013-14	6.26%	9.24%	(2.98%)
2012-13	10.61%	9.87%	0.74%
2011-12	(0.39%)	(1.63%)	1.24%
2010-11	7.44%	7.97%	(0.53%)
2009-10	26.25%	23.88%	2.38%
2008-09	(8.51%)	(12.65%)	4.14%
2007-08	(2.43%)	(2.42%)	(0.01%)
Since inception (% p.a.)	7.21%	6.28%	0.93%



Note: The assumptions behind the investment policies contemplate a 2014/ 15 return of 7.38% a year, made up of income of 4.34% and growth of 3.04%.

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Currency & overseas shares returns

In terms of the overseas share investments, the return received depends on the returns from the share markets, and the change in value, through movement in the exchange rate. This ignores the return received through dividends. The movement in the exchange rate is managed through hedging by way of forward contracts. When hedging contracts are held, the investors receive the benefit of the interest rate differential built into the contracts. This page looks at the source of returns with respect to the overseas share investments.

	Total
Share market movement	($906,691)
Currency movement (50% hedged)	$1,747,964
Policy return	**$841,273**
Currency management	$183,885
Total return	**$1,025,158**

Note:

The return on the combined Forsyth Barr and Elevation Capital managed shares for the month was $2,589,237. This can be split between the market movement and the movement in the NZ dollar.

Market movement	($906,691)
Exchange rate movement	$3,495,928
	$2,589,237

The Trust's policy is to be 50% hedged, therefore the policy return for the month is $841,273, i.e. the market movement and 50% of the exchange rate movement.

The total return from the listed shares was $1,025,158. Therefore the hedging management policy, to depart from the neutral position, gained $183,885 over the month.

Historically, over the 2014/2015 year, the split has been:

Return from:	Apr	May	Jun	Jul	Aug	Sep		YTD 2014/15
Share markets	$1,664,634	$643,193	$524,764	($657,055)	$917,393	($906,691)		$2,186,238
Application of 50% neutral policy	$370,293	$355,157	($853,409)	$759,170	$456,334	$1,747,964		$2,835,508
= Benchmark return	**$2,034,927**	**$998,350**	**($328,645)**	**$102,114**	**$1,373,727**	**$841,273**		**$5,021,746**
Impact movement of policy from 50%	($50,549)	$277,901	($50,135)	$167,023	$295,453	$183,885		$823,579
= Total return	**$1,984,378**	**$1,276,251**	**($378,780)**	**$269,138**	**$1,669,180**	**$1,025,158**		**$5,845,325**

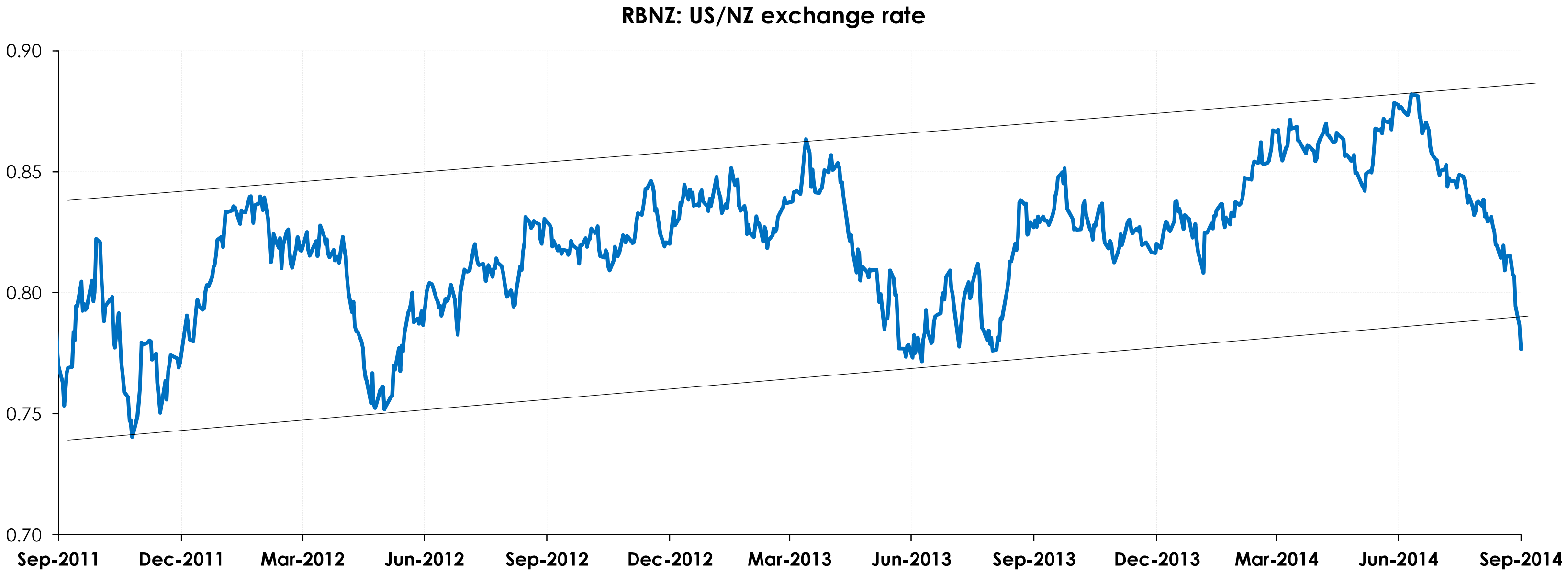
Hedging levels

The benchmark position is to be 50% hedged against the foreign currency exposures. This is an average position over the long term. The actual hedging level is varied between 0% and 100% by the Trustees.

At month end, the overseas shares hedging level is approximately 50%. However, the individual country levels are more important. On 30 September 2014, the individual currency target hedging levels were:

	AUD	EURO	GBP	USD
Hedging level	0%	50%	50%	50%

On 30 September 2014, the RBNZ US$/ NZ$ exchange rate was 0.7767. Since 30 September 2011 it has been:



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Manager performance

This section summarises performance by manager relative to the benchmark indices along with the attribution analysis.

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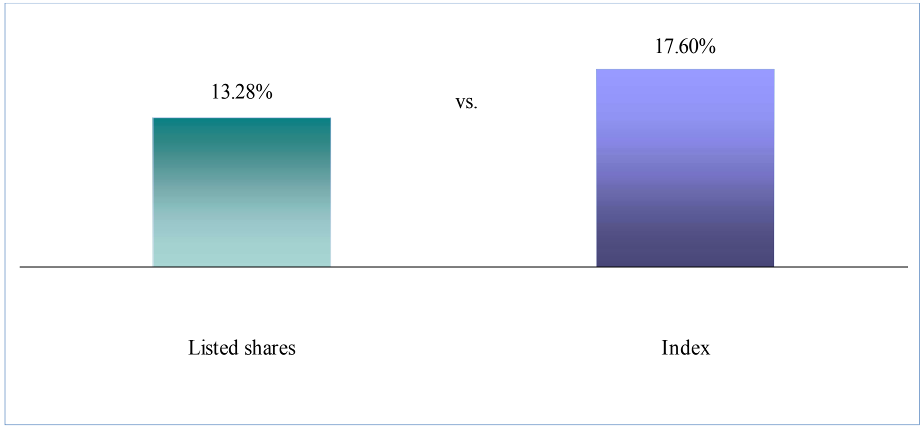
Last 12 months' performance relative to market benchmark returns

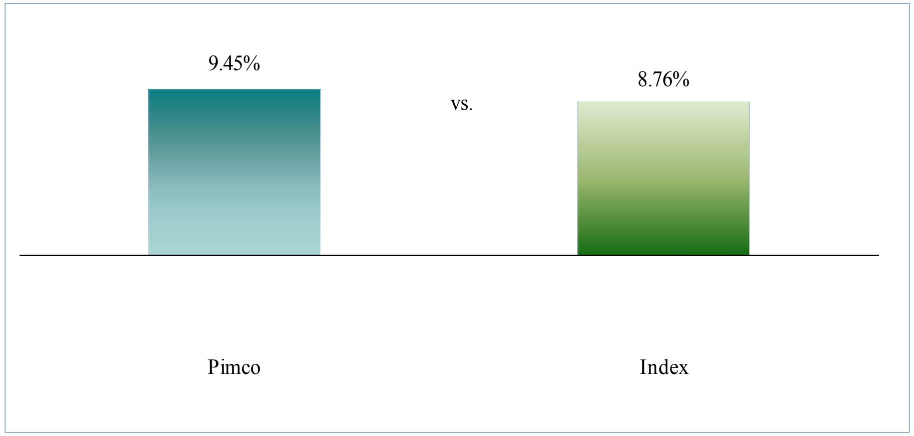
Details of the indices are on page 32

Listed shares



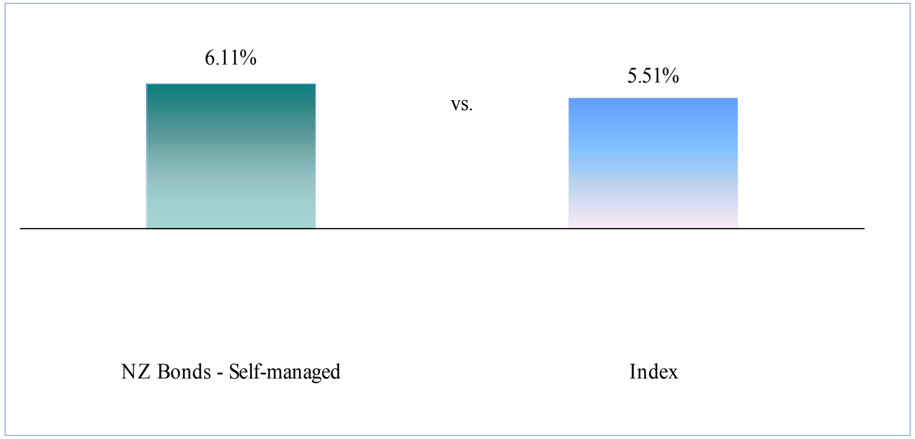
Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗

OS bonds - Pimco



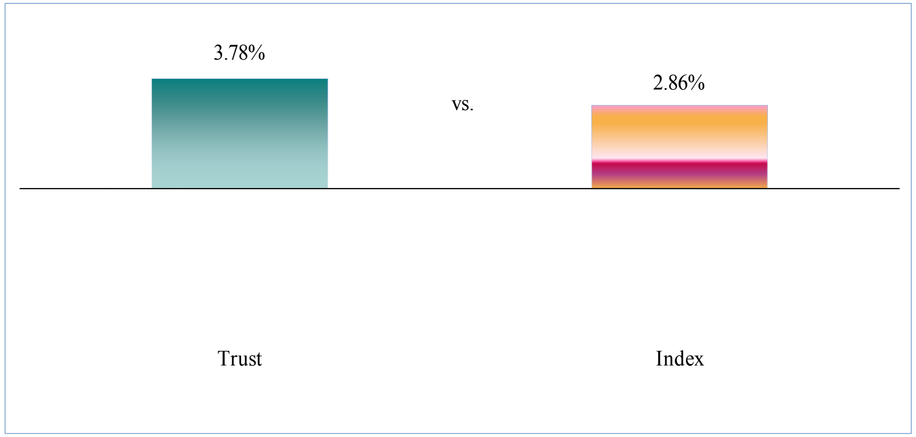
Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
✗	✗	✗	✗	✓	✗	✓	✓	✓	✓	✓	✓

NZ bonds - Self-managed



Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Cash - Self-managed



Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Last 12 months' attribution analysis

The following table sets out the reporting month's value added (i.e. the difference between the Trust's returns and the general market returns) broken down by asset allocation, stock selection, and timing effect. The general market return is the "benchmark" return i.e. the return that could be achieved if the investment policies were implemented "perfectly".

Value Added: -2.58%

Benchmark return	+	Asset allocation	+	Stock selection	+	Timing effect	=	Actual return
12.89%	+	**-0.28%**	+	**0.50%**	+	**-2.80%**	=	**10.31%**

Year-to-date attribution analysis

This page sets out the year to date value added (i.e. the difference between the Trust's returns and the general market returns) broken down by asset allocation, stock selection, and timing effect. The general market return is the "benchmark" return i.e. the return that could be achieved if the investment policies were implemented "perfectly".

Value Added: -0.13%

Benchmark return	+	Asset allocation	+	Stock selection	+	Timing effect	=	Actual return
7.13%	+	**-0.09%**	+	**2.69%**	+	**-2.73%**	=	**7.00%**

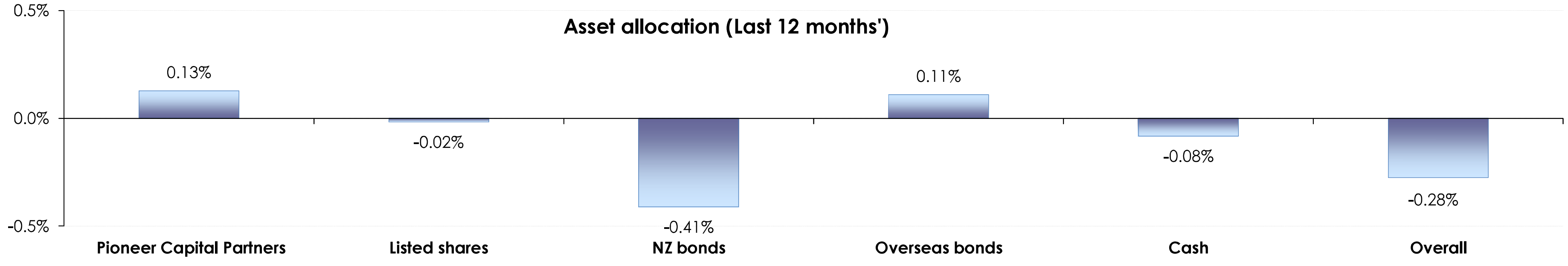
Note: the above calculation is still based on the old benchmarks.

Last 12 months' attribution analysis

This page sets out the value added (i.e. the difference between the Trust's returns and the general market returns) broken down by individual sector for the month. The general market return is the "benchmark" return i.e. the return that could be achieved if the investment policies were implemented "perfectly".

Asset allocation

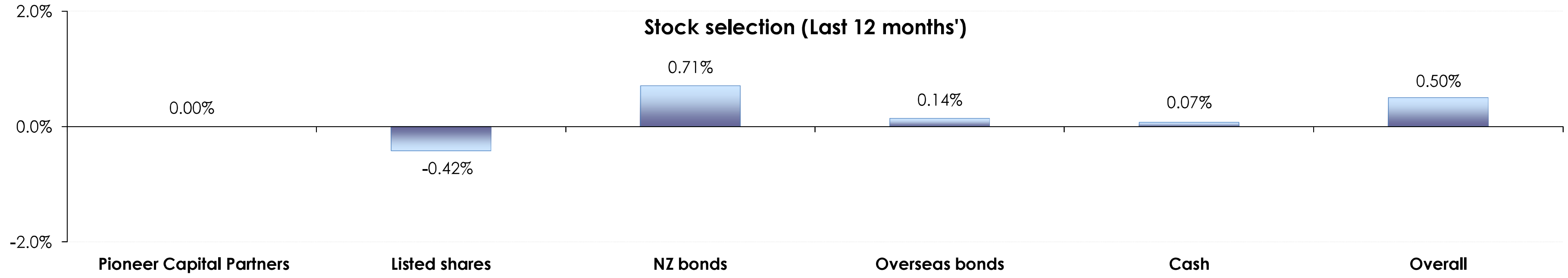
The value from asset allocation relates to the impact of the decisions to vary the short-term strategy away from the benchmark.



This page sets out the year to date value added (i.e. the difference between the Trust's returns and the general market returns) broken down by asset allocation, stock selection, and timing effect. The general market return is the "benchmark" return i.e. the return that could be achieved if the investment policies were implemented "perfectly".

Stock selection

The value from stock selection relates to the decision to hold a portfolio of assets different to the assets reflective of the overall market.



Year-to-date attribution analysis

This page sets out the year to date value added (i.e. the difference between the Trust's returns and the general market returns) broken down by individual sector. The general market return is the "benchmark" return i.e. the return that could be achieved if the investment policies were implemented "perfectly".

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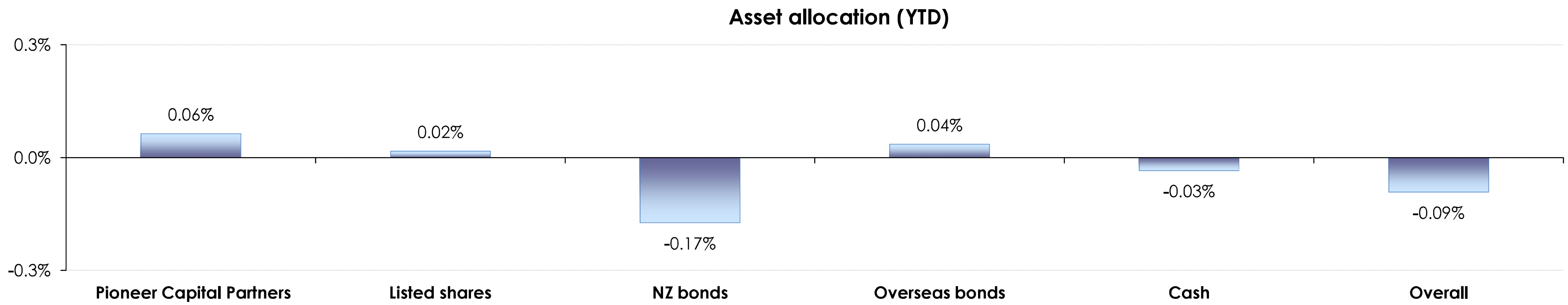
The value from asset allocation relates to the impact of the decisions to vary the short-term strategy away from the benchmark.



Stock selection

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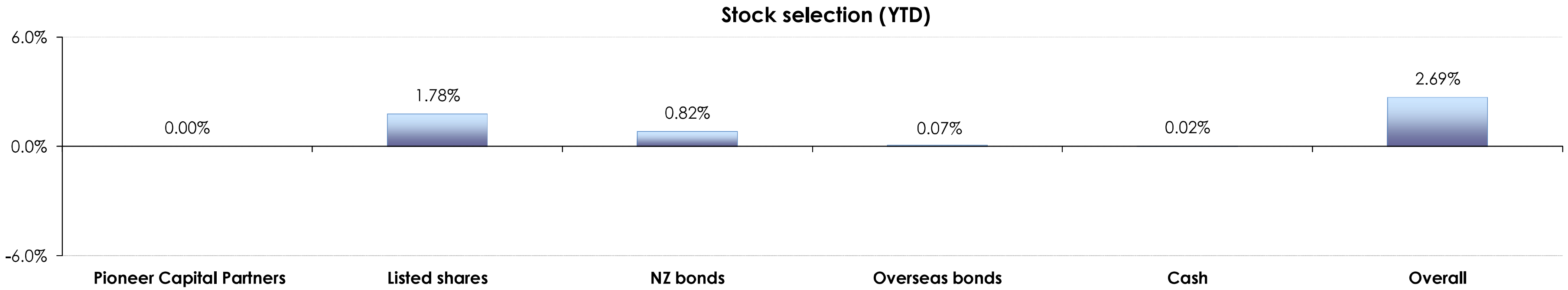

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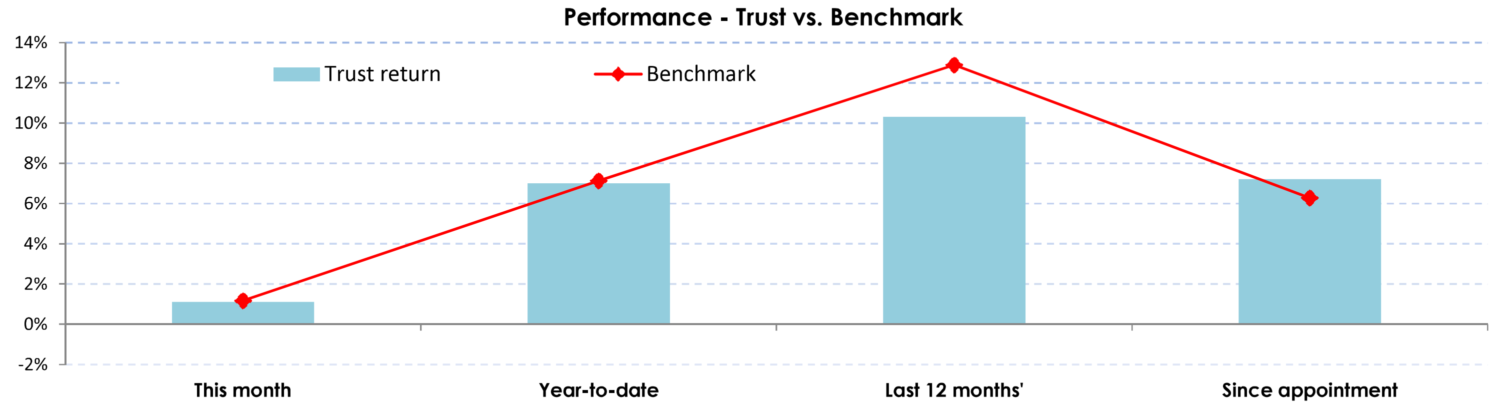
Performance by manager

	This month (%) returns			Year-to-date (%) returns			Last 12 months' (%) returns			Since appointment (%p.a.) returns		
	Actual	Benchmark	Value added	Actual	Benchmark	Value added	Actual	Benchmark	Value added	Actual	Benchmark	Value added
Overall Trust return	**1.11%**	**1.17%**	**-0.06%**	**7.00%**	**7.13%**	**-0.13%**	**10.31%**	**12.89%**	**-2.58%**	**7.21%**	**6.28%**	**0.93%**
Total shares	**1.64%**	**1.74%**	**-0.09%**	**9.05%**	**9.67%**	**-0.62%**	**13.45%**	**17.60%**	**-4.15%**	**8.06%**	**6.42%**	**1.64%**
Listed shares	1.65%	1.74%	-0.08%	9.12%	9.67%	-0.55%	13.28%	17.60%	-4.33%	9.95%	15.01%	-5.06%
Elevation Capital (portfolio)	2.82%	4.46%	-1.64%	12.15%	14.03%	-1.87%	13.92%	19.54%	-5.62%	8.38%	15.11%	-6.73%
Shares	2.86%	4.46%	-1.60%	12.75%	14.03%	-1.28%	14.58%	19.54%	-4.96%	7.69%	15.11%	-7.42%
Liquidity	2.20%			4.55%			5.97%			5.18%		
Forsyth Barr (portfolio)	3.87%	4.46%	-0.58%	10.93%	14.03%	-3.09%	13.59%	19.54%	-5.95%	10.92%	15.11%	-4.19%
Shares	3.89%	4.46%	-0.57%	11.01%	14.03%	-3.02%	13.53%	19.54%	-6.01%	9.90%	15.11%	-5.21%
Liquidity	-1.04%			-0.17%			0.31%			0.99%		
Currency hedging	-1.70%	-2.72%	1.02%	-2.21%	-4.01%	1.80%	-0.43%	-1.86%	1.43%	0.66%	-0.30%	0.96%
Pioneer Capital Partners	0.00%			0.00%			0.00%			0.00%		
NZ bonds - Self-managed	**0.56%**	**0.37%**	**0.19%**	**4.50%**	**3.36%**	**1.14%**	**6.11%**	**5.51%**	**0.59%**	**7.63%**	**6.76%**	**0.87%**
OS bonds - Pimco	**-0.30%**	**0.08%**	**-0.39%**	**4.92%**	**5.06%**	**-0.15%**	**9.45%**	**8.76%**	**0.69%**	**5.20%**	**5.40%**	**-0.20%**
Self-managed - cash	**0.04%**	**0.28%**	**-0.24%**	**1.79%**	**1.56%**	**0.23%**	**3.78%**	**2.86%**	**0.92%**	**6.09%**	**5.25%**	**0.84%**

Note: Details of the benchmark indices are on page 32.



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Listed shares portfolio

Elevation Capital - Christopher Swasbrook

Forsyth Barr - Richard Burton

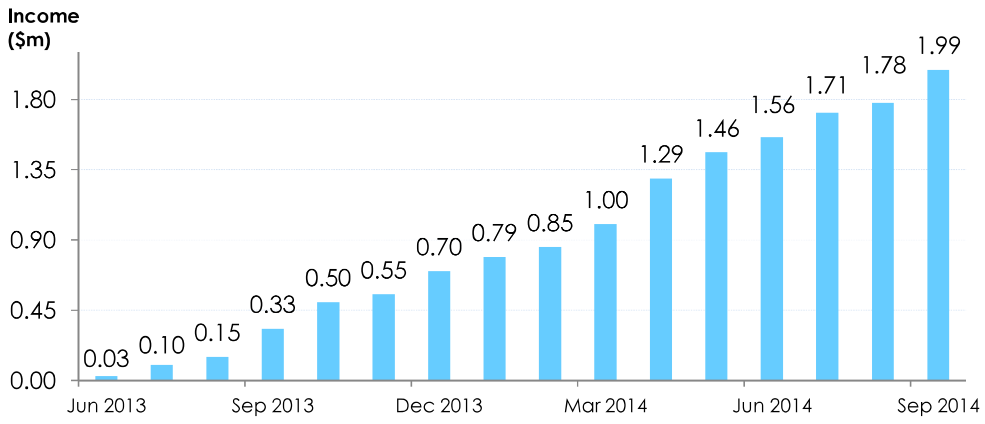
The objective of the portfolio is to provide:

- an income stream of 4.0% of the value of the portfolio each year, and
- a growing level of dividend income in absolute terms over rolling 1 year periods, and
- an increasing portfolio value over a five year period.

Summary of Income

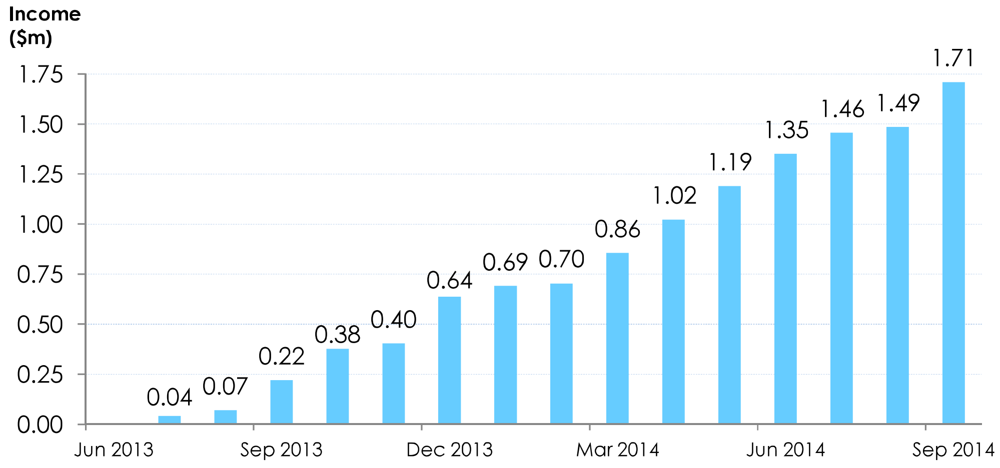
Cumulative dividend income since appointment to current month

Elevation Capital



Assets	$47,466,075
Distributions paid out since appointment	$1,984,341

Forsyth Barr



Assets	$47,758,182
Distributions paid out since appointment	$1,740,268

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Listed shares: Elevation Capital & Forsyth Barr

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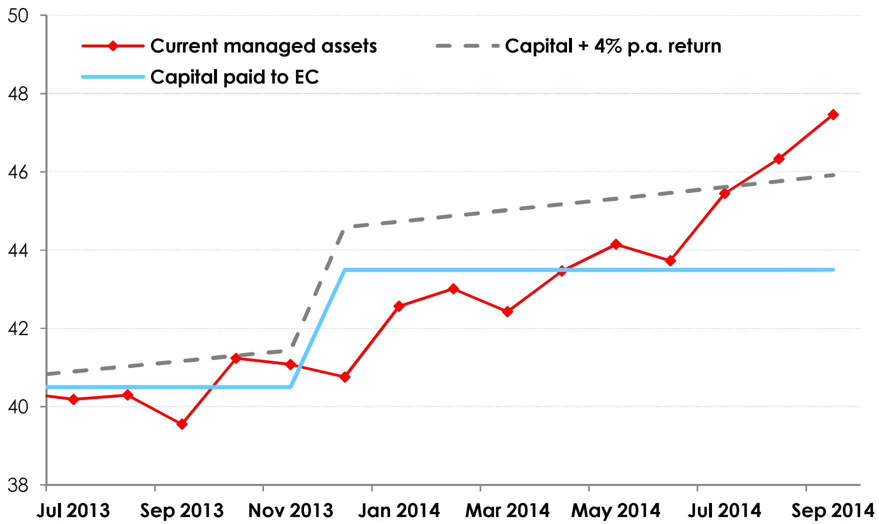
Growth in portfolio

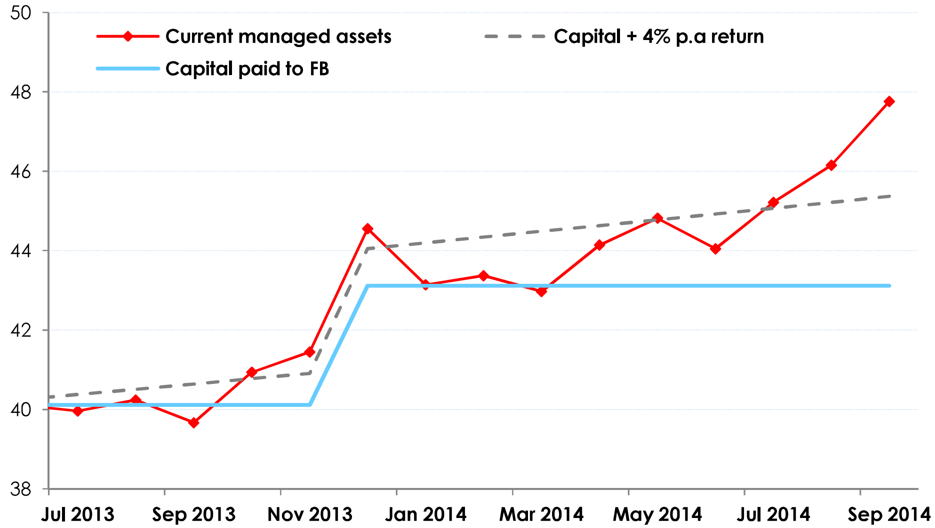
Elevation Capital



Value start of the year	$38,701,167
New capital given to manager	-
Dividends received/ earned	$989,351
Distributions paid to Trust	($1,099,709)
Market movement	$3,794,439
Currency movement	$2,967,813
Cash	$2,113,014
Value at 30 Sep 2014	**$47,466,075**

Note: Elevation Capital has also returned $1.98m to the trust since appointment.

Forsyth Barr



Value start of the year	$42,357,876
New capital given to manager	-
Dividends received/ earned	$854,926
Distributions paid to Trust	($692,360)
Market movement	$2,376,155
Currency movement	$2,703,202
Cash	$158,383
Value at 30 Sep 2014	**$47,758,182**

Note: Forsyth Barr has also returned $1.74m to the trust since appointment.

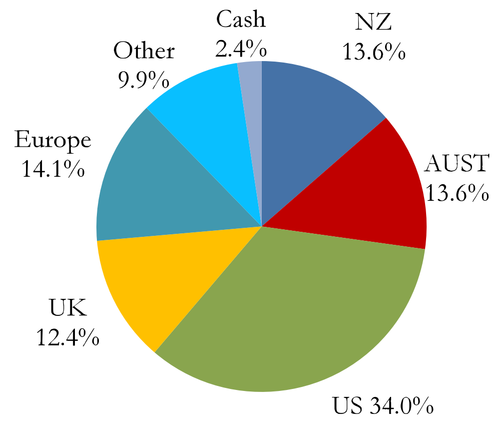
Note: The difference between dividends & interest earned, and what was paid out, is the exchange rates used.
Distributions received and paid to the Trust include both dividend and interest income on the investments.

Listed shares: Elevation Capital & Forsyth Barr

30 September 2014

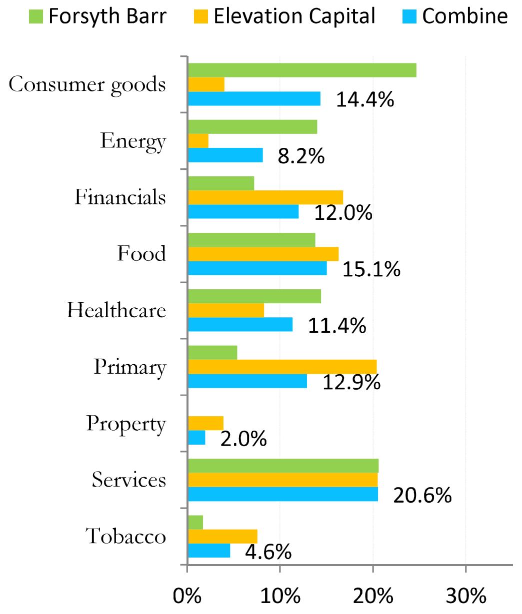
Geographic split

Country of listing	No. of holdings EC	FB	Total	Value of holdings EC	FB	Total	%
NZ	6	11	17	4,076,577	8,852,715	12,929,292	13.6%
AUST	11	6	17	8,403,944	4,557,919	12,961,863	13.6%
US	16	21	37	14,168,458	18,254,354	32,422,812	34.0%
UK	7	7	14	5,879,148	5,908,226	11,787,374	12.4%
Europe	7	10	17	5,153,936	8,290,942	13,444,878	14.1%
Other	10	2	12	7,670,998	1,735,643	9,406,641	9.9%
Shares	**57**	**57**	**114**	45,353,061	47,599,799	92,952,860	**97.6%**
Cash				2,113,014	158,383	2,271,396	2.4%
Total				**47,466,075**	**47,758,182**	**95,224,257**	**100.0%**

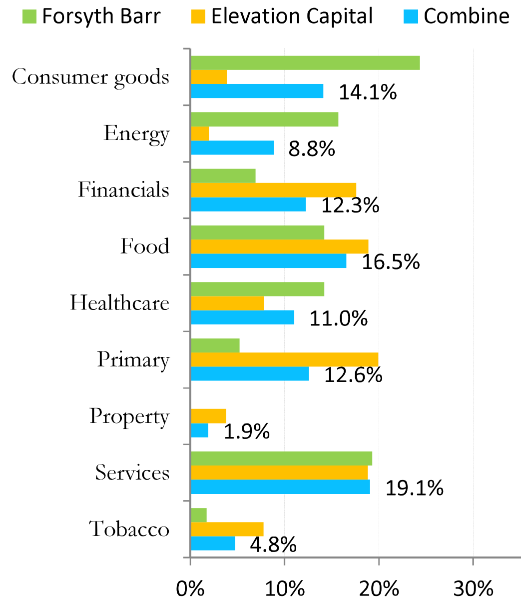


Industry split

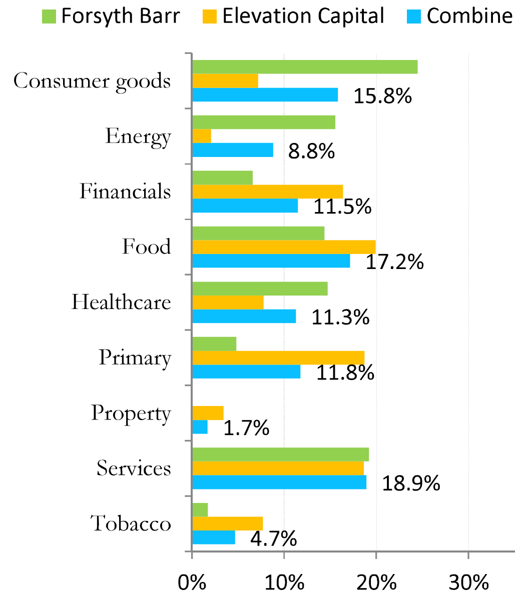
Start of the year 31 Mar 2014



Start of the month 31 Aug 2014



End of the month 30 Sep 2014



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Listed shares: Elevation Capital - Christopher Swasbrook

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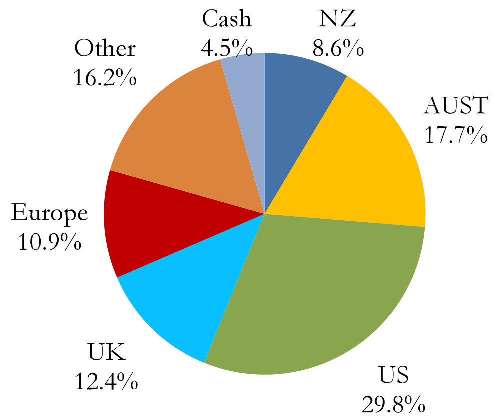
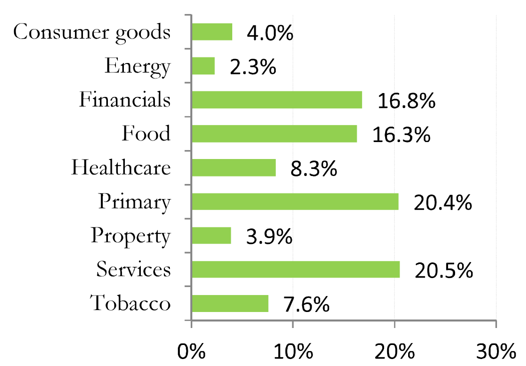
Geographic split

Country of listing	No. of holdings	$	%
NZ	6 shares	4,076,577	8.6%
AUST	11 shares	8,403,944	17.7%
US	16 shares	14,168,458	29.8%
UK	7 shares	5,879,148	12.4%
Europe	7 shares	5,153,936	10.9%
Other	10 shares	7,670,998	16.2%
Shares	57 shares	45,353,061	95.5%
Cash		2,113,014	4.5%
Total		**47,466,075**	**100.0%**

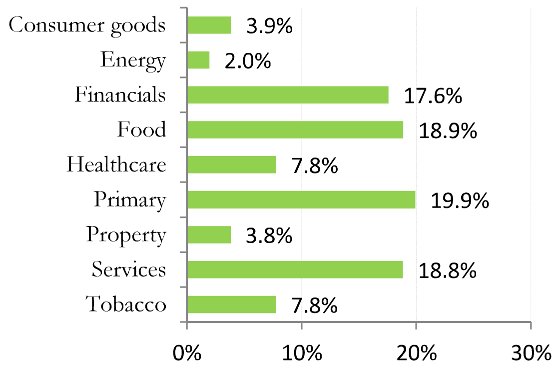


Industry split

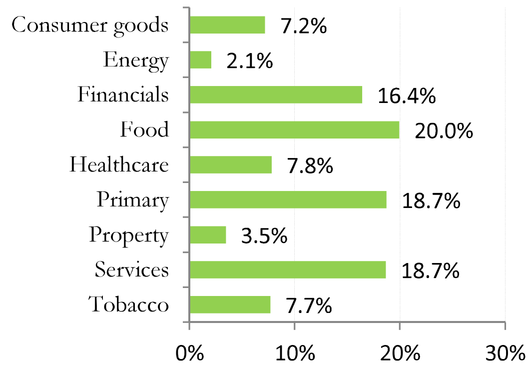
Start of the year **31 Mar 2014**



Start of the month **31 Aug 2014**



End of the month **30 Sep 2014**



Concentration risks:

Shares that are 20% or more above the "equal weighting target" of $832,738

Altria Group Inc

Shares that are 20% or less below the "equal weighting target" of $832,738

Mighty River Power Cielo SA

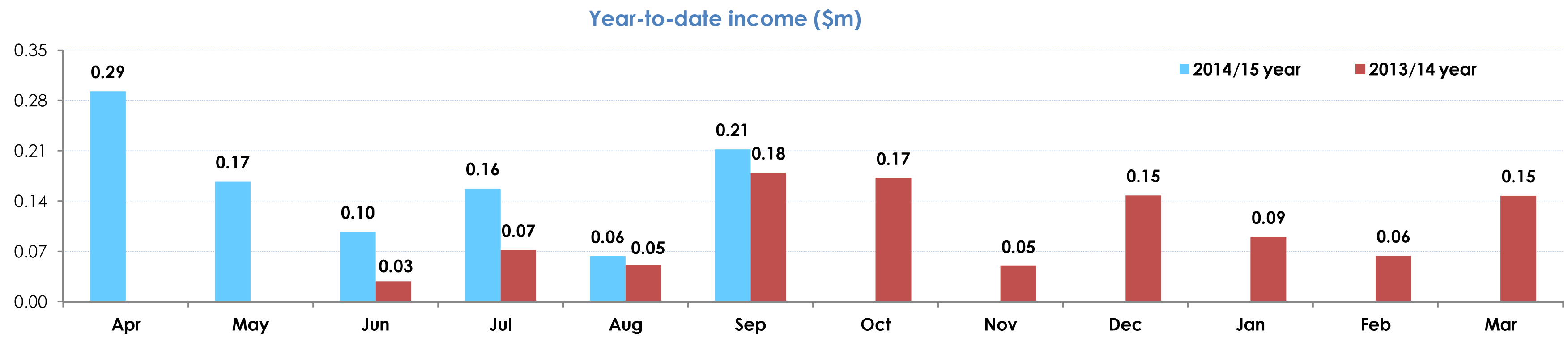
Listed shares: Elevation Capital - Christopher Swasbrook

30 September 2014

Note: The following table is extracted from the next tables, with figures shown in dollars.

	During the year						
	Values			Gain/loss		Values	
	Start	Buys	Sells	Market	Currency	End	Net dividend
Overall shares	**38,701,167**	**5,245,304**	**-2,605,389**	**1,044,167**	**2,967,813**	**45,353,061**	**989,351**
Liquidity (cash)	**3,725,233**	**1,000,000**	**-2,718,565**	**106,346**		**2,113,014**	**32,365**
Overall asset	**42,426,400**	**6,245,304**	**-5,323,954**	**1,150,513**	**2,967,813**	**47,466,075**	**1,021,716**

	During the month							Returns		
	Values			Gain/loss						
	Start	Buys	Sells	Market	Currency	End	Net dividend	Month	Ytd	Since Inception
NZ	4,049,675	695,169	-700,890	32,623	-	4,076,577	34,518	1.7%	6.7%	10.7%
AUST	8,250,483	652,112	-45,634	-500,698	47,680	8,403,944	71,705	-4.5%	6.9%	1.8%
US	13,446,366	45,560	-221,726	-49,889	948,148	14,168,458	14,840	6.8%	16.8%	14.2%
UK	5,323,749	546,304	-62,337	-184,327	255,758	5,879,148	41,668	2.0%	9.9%	8.1%
Europe	4,285,130	753,291	-79,005	52,104	142,416	5,153,936	11,916	4.5%	7.4%	14.3%
Other	7,322,407	103,041	-39,910	-9,272	294,731	7,670,998	37,315	4.4%	21.1%	3.6%
Overall shares	**42,677,811**	**2,795,477**	**-1,149,501**	**-659,457**	**1,688,733**	**45,353,061**	**211,963**	**2.9%**	**12.7%**	**7.7%**
Liquidity (cash)	**3,658,039**	**-**	**-1,604,540**	**59,515**		**2,113,014**	**3,250**	**2.2%**	**4.5%**	**5.2%**
Overall asset	**46,335,849**	**2,795,477**	**-2,754,041**	**-599,943**	**1,688,733**	**47,466,075**	**215,214**	**2.8%**	**12.2%**	**8.4%**



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Code	Company	Industry	Average purchase cost[1]	During the month: Holdings Start	Holdings End	Price NZD Start	Price NZD End	Values Start	Values Buys	Values Sells	Gain/loss Market movement	Gain/loss Currency	End Values	Net dividend	Returns Month	Returns Ytd	Returns Since Inception
AIA	Akl Int'l Airport	Services	3.00	202,500	202,500	3.67	3.84	743,175	-	-	34,425	-	777,600	-	4.6%	-2.0%	19.4%
FBU	Fletcher Building	Primary	8.32	90,000	90,000	9.20	8.78	828,000	-	-	-37,800	-	790,200	-	-4.6%	-6.8%	7.2%
GNE	Genesis Energy Limited	Energy	1.78	-	383,711	-	2.03	-	695,169	-	83,764	-	778,933	-	12.0%	37.1%	37.1%
GMT	Goodman Prop	Property	1.07	760,000	750,000	1.13	1.07	855,000	-	-11,139	-41,361	-	802,500	12,094	-3.5%	14.8%	4.1%
KIP	Kiwi Inome Prop	Property	1.08	750,000	750,000	1.04	1.02	780,000	-	-	-15,000	-	765,000	16,919	0.2%	3.4%	5.9%
MRP	Mighty River Power	Energy	2.32	350,000	62,924	2.41	2.58	843,500	-	-689,751	8,595	-	162,344	5,505	2.8%	13.2%	4.9%
NZ subtotal in $ooo's		**6 shares**						**4,050**	**695**	**-701**	**33**	**-**	**4,077**	**35**	**1.7%**	**6.7%**	**10.7%**
AHD	Amalgamated Hold.	Services	10.04	80,000	80,000	11.03	10.63	882,537	-	-	-35,840	3,956	850,653	24,227	-0.9%	17.7%	9.8%
ANZ	ANZ Banking	Financials	33.02	22,000	22,000	37.26	34.24	819,719	-	-	-69,763	3,407	753,362	-	-8.1%	-0.6%	6.7%
BHP	BHP Billiton	Primary	40.61	19,900	19,900	41.18	37.82	819,464	-	-	-70,281	3,470	752,653	14,776	-6.4%	-1.0%	-1.9%
AAD	Ardent Leisure Gp	Services	2.03	250,000	256,224	3.45	3.49	862,550	16,825	-	10,447	3,966	893,788	-	1.7%	35.7%	57.5%
ASX	ASX	Financials	43.76	18,500	18,500	41.58	40.28	769,250	-	-	-27,558	3,454	745,146	18,655	-0.7%	7.2%	-3.8%
CCL	Coca-Cola Amatil	Food	14.09	70,000	75,000	10.07	9.90	705,002	49,830	-	-16,129	4,105	742,807	-	-1.6%	-13.2%	-24.0%
IFL	IOOF Holdings	Financials	9.60	84,300	80,000	10.67	9.53	899,853	-	-45,634	-94,875	3,373	762,717	-	-10.4%	3.8%	0.6%
MTS	MetCash	Food	4.14	250,000	250,000	3.13	2.94	781,599	-	-	-50,246	3,322	734,676	-	-6.0%	8.5%	-21.5%
NAB	NAB	Financials	35.79	22,575	22,575	38.82	35.97	876,432	-	-	-68,058	3,672	812,047	-	-7.3%	-2.2%	4.7%
PTL	Pental Limited	Consumer Goods	0.04	-	15,364,435	-	0.04	-	585,458	-	-28,150	11,395	568,702	14,047	-2.9%	-2.9%	-2.9%
TTS	Tatts Group	Services	3.72	225,000	225,000	3.71	3.50	834,078	-	-	-50,246	3,561	787,393	-	-5.6%	15.8%	-3.2%
AUST subtotal in $ooo's		**11 shares**			**ex-rate**	**0.8956**	**0.8915**	**8,250**	**652**	**-46**	**-501**	**48**	**8,404**	**72**	**-4.5%**	**6.9%**	**1.8%**
OAK	Oaktree Capital Management	Financials	64.86	12,500	12,500	59.52	65.97	744,051	-	-	25,559	54,969	824,579	-	10.8%	2.1%	7.8%
MO	Altria Group Inc	Tobacco	44.51	17,500	17,000	51.31	58.98	897,913	-	-25,473	63,468	66,820	1,002,729	-	14.7%	40.6%	27.7%
AFL	Aflac Inc	Financials	69.93	11,500	11,500	73.23	74.91	842,114	-	-	-38,399	57,735	861,450	4,634	2.9%	9.8%	9.8%
ADP	Automatic Data Processing Inc	Services	86.77	8,250	8,250	99.84	106.09	823,718	-	-	-6,807	58,347	875,258	-	6.3%	20.9%	19.3%
KRFT	Kraft Foods	Food	64.99	12,455	12,455	69.93	72.22	870,942	-	-	-31,424	59,962	899,479	-	3.3%	14.3%	13.7%
BPT	BP Prudhoe Bay Royalty Trust	Primary	114.13	7,500	7,500	115.31	121.86	864,791	-	-	-11,748	60,928	913,971	-	5.7%	30.5%	12.2%
CLX	Clorox Co	Primary	104.97	7,650	7,650	106.00	122.53	810,920	-	-	63,941	62,486	937,347	-	15.6%	22.4%	15.4%
FCX	Freeport Mcmoran C&G	Primary	36.45	20,000	20,000	43.24	42.11	864,761	-	-	-78,680	56,145	842,227	-	-2.6%	12.9%	14.9%
JNJ	Johnson & Johnson	Healthcare	106.79	7,250	7,000	123.10	137.21	892,488	-	-30,756	34,362	64,383	960,477	5,774	12.0%	23.5%	24.8%
KMB	Kimberly-Clark Corp	Services	121.56	6,625	6,625	129.31	138.25	856,663	-	-	-1,822	61,056	915,897	-	6.9%	10.7%	12.4%
MRK	Merck & Co Stk	Healthcare	59.94	13,000	12,000	71.74	76.11	932,680	-	-71,877	-8,264	60,818	913,356	-	5.9%	19.4%	22.6%
TAP	Molson Coors Brewing Co	Food	61.48	11,000	10,000	88.03	95.09	968,337	-	-93,620	10,408	65,743	950,868	4,432	8.8%	45.2%	42.7%
PAYX	Paychex Inc.	Services	47.23	16,000	16,000	49.96	56.67	799,330	-	-	46,873	60,439	906,643	-	13.4%	17.3%	19.4%
PM	Philip Morris Int'l	Tobacco	112.93	7,175	7,175	101.95	106.63	731,485	-	-	-17,416	51,002	765,070	-	4.6%	16.8%	-0.3%
PG	Procter & Gamble Corp	Consumer goods	97.42	8,305	8,305	99.28	108.18	824,542	-	-	14,002	59,892	898,436	-	9.0%	19.3%	11.0%
ARCO	Arcos Dorados Holdings Inc	Food	11.06	85,000	91,000	8.49	7.70	721,631	45,560	-	-113,941	47,422	700,673	-	-8.9%	-37.2%	-37.5%
US subtotal in $ooo's		**16 shares**			**ex-rate**	**0.8363**	**0.7806**	**13,446**	**46**	**-222**	**-50**	**948**	**14,168**	**15**	**6.8%**	**16.8%**	**14.2%**

Eastern & Central COMMUNITY TRUST

Listed shares: Elevation Capital - Christopher Swasbrook

MCA - actuaries & consultants -

30 September 2014

Code	Company	Industry	Average purchase cost[1]	During the month									End Values	Net dividend	Returns		
				Holdings		Price NZD		Values			Gain/loss						
				Start	End	Start	End	Start	Buys	Sells	Market movement	Currency			Month	Ytd	Since Inception
BP	BP PLC	Primary	9.00	90,000	90,000	9.57	9.44	861,596	-	-	-50,065	38,365	849,896	11,141	-0.1%	4.0%	8.0%
BAT	British American Tobacco	Tobacco	68.01	11,920	11,920	70.06	72.59	835,122	-	-	-8,923	39,078	865,277	11,762	5.1%	17.9%	10.0%
DGE	Diageo	Food	36.16	10,000	22,500	35.20	36.46	351,990	462,171	-	-22,511	28,614	820,264	-	1.0%	1.2%	1.2%
GSK	GlaxoSmithkline PLC	Healthcare	32.51	24,605	27,500	29.04	29.46	714,441	84,133	-	-24,692	36,151	810,033	-	1.5%	-2.6%	-5.0%
RDSB	Royal Dutch Shell	Primary	43.01	18,000	16,750	50.47	50.66	908,485	-	-62,337	-35,655	38,141	848,634	11,406	1.6%	15.4%	18.4%
ULVR	UNILEVER PLC	Consumer goods	51.53	15,725	15,725	52.56	52.93	826,432	-	-	-31,506	37,414	832,341	7,359	1.6%	9.7%	5.2%
HSBA	HSBC Holdings	Financials	12.59	64,300	64,300	12.84	13.26	825,684	-	-	-10,975	37,994	852,703	-	3.3%	16.0%	8.1%
UK subtotal in $000's		**7 shares**			**ex-rate**	**0.5039**	**0.4814**	**5,324**	**546**	**-62**	**-184**	**256**	**5,879**	**42**	**2.0%**	**9.9%**	**8.1%**
ABI	Anheuser-Busch InBev	Food	118.83	6,740	6,740	132.96	140.48	896,162	-	-	22,650	28,028	946,839	-	5.7%	16.5%	21.3%
ADS	Adidas AG	Consumer Goods	92.07	-	4,125	-	95.88	-	379,806	-	10,246	5,459	395,511	-	4.1%	4.1%	4.1%
DAI	Daimler AG	Services	78.00	7,500	7,500	97.61	98.39	732,098	-	-	-16,110	21,935	737,924	3,106	1.2%	-7.3%	21.6%
MUV	Münchener Rück AG	Financials	236.91	3,420	3,420	237.91	251.72	813,646	-	-	21,751	25,483	860,880	-	5.8%	2.9%	7.8%
SAN	Sanofi-Aventis S.A..	Healthcare	136.74	6,045	6,045	130.83	141.44	790,843	-	-	38,825	25,308	854,977	-	8.1%	20.1%	3.8%
SA	TOTAL S.A	Primary	63.74	11,500	10,500	78.75	81.40	905,661	-	-79,005	2,291	25,734	854,681	8,810	4.3%	8.3%	20.6%
TOD	TOD's SPA	Consume goods	130.35	1,125	3,938	130.42	127.76	146,720	373,485	-	-27,550	10,469	503,123	-	-5.1%	-0.5%	-0.5%
Europe subtotal in $000's		**7 shares**			**ex-rate**	**0.6368**	**0.6180**	**4,285**	**753**	**-79**	**52**	**142**	**5,154**	**12**	**4.5%**	**7.4%**	**14.3%**
ADVANC.TH	Advanced Info Service	Services	10.42	90,000	100,000	7.82	8.86	704,231	77,385	-	56,228	47,854	885,697	19,544	16.9%	16.4%	-12.7%
ROTH.MK	British American Tobacco	Tobacco	24.06	31,000	31,000	27.60	27.42	855,570	-	-	-30,526	24,967	850,012	10,623	0.6%	32.5%	15.4%
LMC.MK	Lafarge Malayan Cement	Primary	4.02	200,000	200,000	3.80	4.02	760,358	-	-	19,730	22,974	803,062	-	5.6%	27.5%	2.4%
NESZ.MK	Nestle (Malaysia)	Food	26.85	30,200	30,200	25.99	25.94	784,907	-	-	-24,335	22,680	783,251	7,147	0.7%	14.0%	-0.7%
NESN	Nestle SA	Food	83.77	9,600	9,600	91.86	93.15	881,875	-	-	-14,375	26,782	894,282	-	1.4%	10.0%	10.0%
19.HK	Swire Pacific Ltd	Services	14.70	50,000	50,000	16.05	16.61	802,283	-	-	-25,457	53,895	830,721	-	3.5%	28.5%	12.9%
ZURN	Zurich Insurance Group AG	Financials	332.54	2,425	2,425	358.33	382.15	868,958	-	-	29,997	27,753	926,708	-	6.6%	16.4%	17.1%
CIEL3	Cielo SA	Financials	16.15	2,000	2,000	22.16	20.61	44,310	-	-	-2,193	-891	41,227	-	-7.0%	15.7%	29.6%
GAB.MK	Guinness Anchor Bhd	Food	6.24	145,000	150,000	5.12	5.04	742,715	25,656	-	-34,207	21,636	755,800	-	-1.7%	2.8%	-16.8%
SCCC.TB	Siam City Cement	Primary	16.08	55,000	52,500	15.95	17.15	877,200	-	-39,910	15,866	47,081	900,237	-	7.3%	43.8%	-6.4%
Other subtotal in $000's		**10 shares**						**7,322**	**103**	**-40**	**-9**	**295**	**7,671**	**37**	**4.4%**	**21.1%**	**3.6%**
Overall shares in $000's		**57 shares**		**4,333**	**19,826**			**42,678**	**2,795**	**-1,150**	**-659**	**1,689**	**45,353**	**212**	**2.9%**	**12.7%**	**7.7%**
Liquidity in $000's								**3,658**	**-**	**-1,605**	**60**		**2,113**		**2.2%**	**4.5%**	**5.2%**
Overall asset in $000's								**46,336**	**2,795**	**-2,754**	**-600**	**1,689**	**47,466**	**215**	**2.8%**	**12.2%**	**8.4%**

Note: [1] "Average purchase cost" figures are since inception.
[2] Cielo SA received bonus shares in April 2014 of $658.
[3] Auckland Airport had a reduction in shares held during April, for which the trust received a capital repayment of $77,175.

Eastern & Central COMMUNITY TRUST

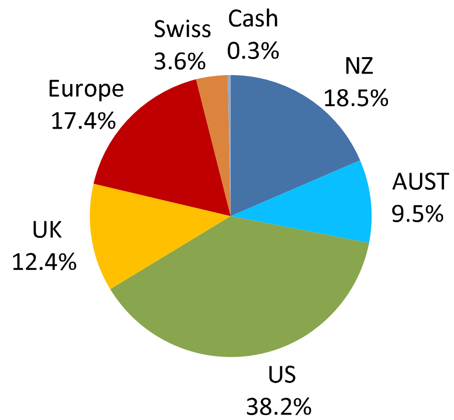
Listed shares: Forsyth Barr - Richard Burton

MCA - actuaries & consultants -

30 September 2014

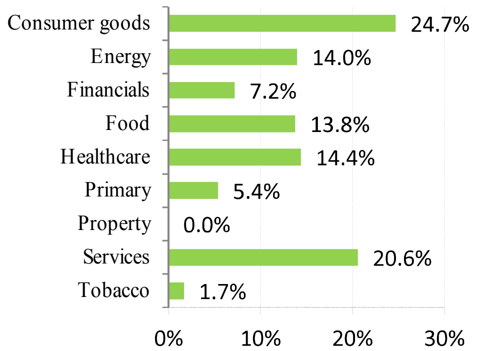
Geographic split

Country of listing	No. of holdings	$	%
NZ	11 shares	8,852,715	18.5%
AUST	6 shares	4,557,919	9.5%
US	21 shares	18,254,354	38.2%
UK	7 shares	5,908,226	12.4%
Europe	10 shares	8,290,942	17.4%
Swiss	2 shares	1,735,643	3.6%
Shares	57 shares	47,599,799	99.7%
Cash		158,383	0.3%
Total		**47,758,182**	**100%**

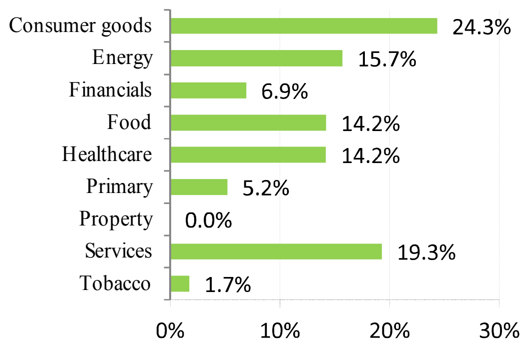


Industry split

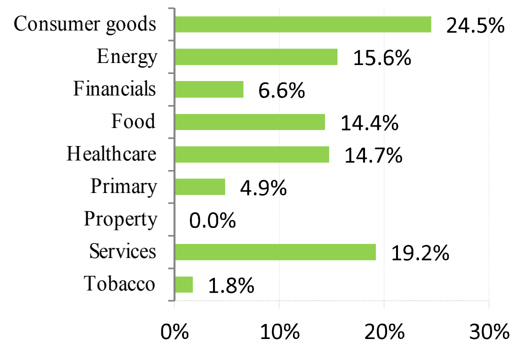
Start of the year 31 Mar 2014



Start of the month 31 Aug 2014



End of the month 30 Sep 2014



Concentration risks:

Shares that are 20% or more above the "equal weighting target" of $837,863

Shares that are 20% or less below the "equal weighting target" of $837,863

Listed shares: Forsyth Barr - Richard Burton

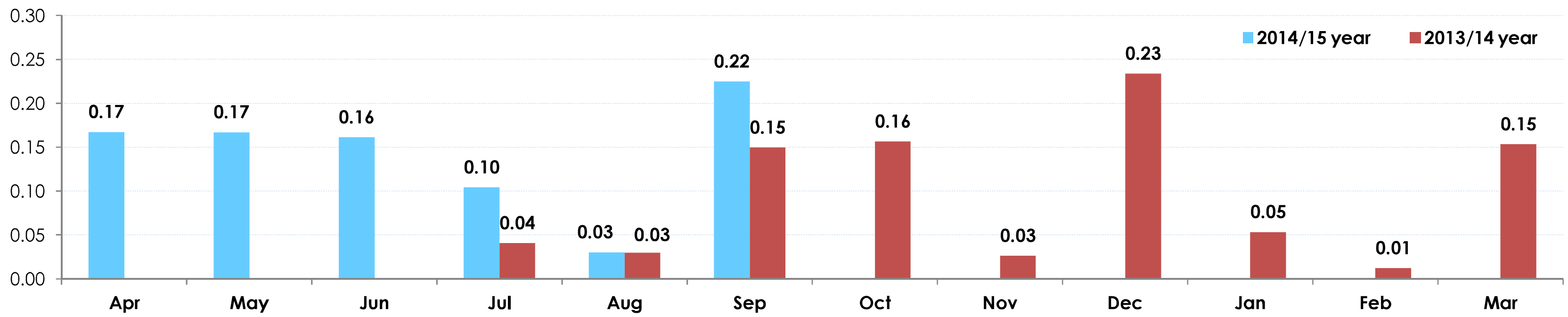
30 September 2014

Note: The following table is extracted from the next tables, with figures shown in dollars.

	During the year						
	Values			Gain/loss		Values	
	Start	Buys	Sells	Market	Currency	End	Net dividend
Overall shares	**42,357,876**	**2,601,498**	**-1,204,848**	**1,142,072**	**2,703,202**	**47,599,799**	**854,926**
Liquidity (cash)	**612,483**	**1,000,000**	**-1,454,287**	**187**		**158,383**	**4,907**
Overall asset	**42,970,359**	**3,601,498**	**-2,659,136**	**1,142,259**	**2,703,202**	**47,758,182**	**859,833**

	During the month							Returns		
	Values			Gain/loss		Values				
	Start	Buys	Sells	Market	Currency	End	Net dividend	Month	Ytd	Since Inception
NZ	8,767,063	-	-	85,651	-	8,852,715	44,477	1.5%	5.1%	13.8%
AUST	4,807,897	-	-	-270,822	20,844	4,557,919	51,522	-4.1%	7.9%	10.5%
US	17,141,656	-	-	-107,884	1,220,582	18,254,354	55,474	6.8%	16.2%	10.6%
UK	5,610,432	-	-	31,542	266,252	5,908,226	67,316	6.5%	12.5%	4.4%
Europe	8,083,646	-	-	-40,242	247,538	8,290,942	5,960	2.6%	6.2%	5.5%
Swiss	1,629,143	-	-	54,521	51,979	1,735,643	-	6.5%	18.0%	16.2%
Overall shares	**46,039,837**	**-**	**-**	**-247,233**	**1,807,195**	**47,599,799**	**224,750**	**3.9%**	**11.0%**	**9.9%**
Liquidity (cash)	**114,226**	**-**	**45,961**	**-1,804**		**158,383**	**374**	**-1.0%**	**-0.2%**	**1.0%**
Overall asset	**46,154,063**	**-**	**45,961**	**-249,037**	**1,807,195**	**47,758,182**	**225,124**	**3.9%**	**10.9%**	**10.0%**

Year-to-date income ($m)



Eastern & Central COMMUNITY TRUST

Listed shares: Forsyth Barr - Richard Burton

MCA - actuaries & consultants -

30 September 2014

Code	Company	Industry	Average purchase cost[1]	During the month									End Values	Net dividend	Returns		
				Holdings		Price NZD		Values			Gain/loss						
				Start	End	Start	End	Start	Buys	Sells	Market movement	Currency			Month	Ytd	Since Inception
ABA	Abano Healthcare	Services	5.82	121,522	121,522	6.90	7.00	838,502	-	-	12,152	-	850,654	-	1.4%	5.1%	19.8%
AIA	Auckland Int'l Airport	Services	2.97	208,143	208,143	3.67	3.84	763,885	-	-	35,384	-	799,269	-	4.6%	-2.0%	22.1%
CEN	Contact Energy	Energy	5.07	141,000	141,000	5.55	5.92	782,550	-	-	52,170	-	834,720	21,150	9.5%	14.2%	19.0%
EBO	EBOS	Consumer goods	8.73	84,000	84,000	9.56	9.16	803,040	-	-	-33,600	-	769,440	-	-4.2%	-9.2%	8.2%
FPH	F&P Healthcare	Healthcare	3.34	161,000	161,000	5.12	5.17	824,320	-	-	8,050	-	832,370	-	1.0%	23.9%	43.6%
FBU	Fletcher Building	Services	9.13	84,000	84,000	9.20	8.78	772,800	-	-	-35,280	-	737,520	-	-4.6%	-7.1%	-1.6%
FRE	Freightways	Services	4.34	161,000	161,000	5.16	5.01	830,760	-	-	-24,150	-	806,610	-	-2.9%	6.3%	13.3%
GNE	Genesis Energy	Energy	1.61	417,680	417,680	1.80	2.03	749,736	-	-	98,155	-	847,890	-	13.1%	25.4%	25.4%
HBY	Hellaby Holdings	Financials	2.78	273,000	273,000	2.97	2.96	810,810	-	-	-2,730	-	808,080	-	-0.3%	-0.3%	9.3%
SKL	Skellerup	Consumer goods	1.35	490,000	490,000	1.60	1.55	784,000	-	-	-24,500	-	759,500	-	-3.1%	-12.6%	17.8%
VCT	Vector	Energy	2.78	300,993	300,993	2.68	2.68	806,661	-	-	-	-	806,661	23,327	2.9%	16.9%	2.2%
NZ subtotal in $000's		**11 shares**				**-**	**-**	**8,767**	**-**	**-**	**86**	**-**	**8,853**	**44**	**1.5%**	**5.1%**	**13.8%**
AMC	Amcor	Services	11.35	65,800	65,800	12.75	12.72	839,031	-	-	-5,956	3,863	836,938	17,344	1.8%	17.3%	23.3%
ANZ	ANZ Bank	Financials	33.68	21,169	21,169	37.26	34.24	788,756	-	-	-67,128	3,278	724,906	-	-8.1%	-0.6%	6.0%
APA	APA group	Energy	7.19	92,806	92,806	8.62	8.27	799,980	-	-	-36,361	3,562	767,181	20,493	-1.6%	23.8%	14.0%
BHP	BHP Billiton	Primary	38.94	18,431	18,431	41.18	37.82	758,972	-	-	-65,093	3,214	697,093	13,685	-6.4%	-1.1%	1.7%
NAB	National Australia Bank	Financials	35.31	20,125	**20,125**	38.82	35.97	781,316	-	-	-60,672	3,274	723,918	-	-7.3%	-2.2%	5.8%
AST	AusNet Services	Energy	1.39	531,564	531,564	1.58	1.52	839,843	-	-	-35,612	3,653	807,884	-	-3.8%	11.8%	12.1%
AUST subtotal in $000's		**6 shares**			**ex-rate**	**0.8956**	**0.8916**	**4,808**	**-**	**-**	**-271**	**21**	**4,558**	**52**	**-4.1%**	**7.9%**	**10.5%**
MMM	3M	Consumer goods	143.15	4,868	4,868	172.16	182.17	838,090	-	-	-10,722	59,418	886,786	4,532	6.4%	19.0%	22.4%
MO	Altria Group Inc	Consumer goods	45.70	16,401	16,401	51.31	58.98	841,524	-	-	61,384	64,489	967,397	-	15.0%	40.8%	22.9%
CVX	Chevron Corp	Energy	153.71	5,378	5,378	153.95	154.44	827,953	-	-	-53,136	55,773	830,591	6,059	1.1%	14.7%	1.9%
KO	Coca-Cola	Food	51.02	16,100	16,100	49.78	54.13	801,438	-	-	11,936	58,094	871,469	-	8.7%	22.1%	4.8%
CL	Colgate-Palmolive	Consumer goods	74.33	10,353	10,353	77.14	84.08	798,603	-	-	13,865	58,030	870,498	-	9.0%	14.8%	12.2%
DPS	Dr Pepper Snapple	Food	59.61	11,659	11,659	74.72	82.11	871,184	-	-	22,306	63,817	957,306	-	9.9%	33.7%	28.7%
EMR	Emerson Electric	Consumer goods	72.96	10,430	10,430	76.84	80.29	801,425	-	-	-20,136	56,131	837,420	4,589	5.1%	5.5%	10.6%

Listed shares: Forsyth Barr - Richard Burton

30 September 2014

Code	Company	Industry	Average purchase cost[1]	During the month											Returns		
				Holdings		Price NZD		Values			Gain/loss		End Values	Net dividend			
				Start	End	Start	End	Start	Buys	Sells	Market movement	Currency			Month	Ytd	Since Inception
GE	General Electric	Consumer goods	30.42	25,788	25,788	31.10	32.57	802,040	-	-	-18,193	55,985	839,832	-	4.7%	10.5%	8.5%
GIS	General Mills	Food	62.69	12,530	12,530	63.60	64.86	796,928	-	-	-38,356	54,180	812,752	-	2.0%	11.0%	5.0%
HD	Home Depot	Services	99.46	8,050	8,050	110.62	118.99	890,477	-	-	3,287	64,130	957,894	4,120	8.1%	32.2%	15.7%
ITW	Illinois Tool	Consumer goods	89.90	7,684	7,684	105.26	109.68	808,828	-	-	-22,235	56,182	842,774	-	4.2%	18.8%	18.0%
JNJ	Johnson & Johnson	Healthcare	110.29	6,500	6,500	123.10	137.21	800,161	-	-	31,925	59,785	891,871	4,955	12.1%	23.6%	22.5%
KMB	Kimberly-Clark Corp	Consumer goods	124.85	6,351	6,351	129.31	138.25	821,233	-	-	-1,747	58,531	878,017	-	6.9%	10.5%	9.8%
KRFT	Kraft Foods	Food	69.90	11,704	11,704	69.93	72.22	818,426	-	-	-29,529	56,346	845,243	-	3.3%	14.2%	4.8%
MAT	Mattel Aktie	Consumer goods	53.80	17,500	17,500	41.49	39.05	726,115	-	-	-88,788	46,038	683,364	7,242	-4.9%	-13.9%	-23.6%
MCD	McDonald's Corp	Services	124.55	6,930	6,930	112.57	123.27	780,091	-	-	16,828	57,356	854,275	6,113	10.3%	11.4%	0.7%
MDT	Medtronic Aktie	Healthcare	67.69	10,906	10,906	75.48	81.15	823,134	-	-	2,869	58,996	884,999	-	7.5%	17.3%	17.2%
NU	Northeast Utilities	Energy	53.46	15,400	15,400	54.50	56.88	839,330	-	-	-22,168	58,835	875,998	6,582	5.2%	11.4%	8.3%
PFE	Pfizer Aktie	Healthcare	36.23	23,100	23,100	35.13	38.14	811,525	-	-	10,376	59,128	881,029	5,946	9.3%	5.7%	6.2%
PG	Procter & Gamble Corp	Consumer goods	100.14	8,400	8,400	99.28	108.18	833,973	-	-	14,162	60,577	908,713	-	9.0%	18.8%	7.7%
WFC	Wells Fargo & Company	Financials	55.60	13,230	13,230	61.16	66.22	809,177	-	-	8,187	58,760	876,124	5,336	9.0%	17.8%	23.9%
US subtotal in $000's		**21 shares**			**ex-rate**	**0.8363**	**0.7806**	**17,142**	**-**	**-**	**-108**	**1,221**	**18,254**	**55**	**6.8%**	**16.2%**	**10.6%**
BATS	British American Tobacco	Tobacco	68.67	11,490	11,490	70.06	72.59	804,996	-	-	-8,601	37,668	834,063	11,337	5.1%	17.9%	6.5%
CNA	Centrica	Energy	7.14	126,000	126,000	6.33	6.36	797,987	-	-	-32,260	35,710	801,437	-	0.4%	4.5%	-7.4%
DGE	Diageo	Food	37.78	22,974	22,974	35.20	36.46	808,661	-	-	-8,435	37,318	837,544	-	3.6%	2.6%	-2.4%
GSK	GlaxoSmithkline PLC	Healthcare	32.34	28,105	28,105	29.04	29.46	816,069	-	-	-25,101	36,887	827,854	-	1.4%	-2.5%	-6.3%
PSON	Pearson PLC	Services	23.16	36,400	36,400	22.05	25.26	802,628	-	-	75,305	41,519	919,452	12,360	16.2%	32.0%	9.7%
RB	Reckitt Benckiser Group	Consumer goods	92.20	7,636	7,636	103.11	110.72	787,318	-	-	20,004	38,126	845,448	10,220	8.7%	20.2%	17.1%
SSE	Scottish & Southern Energy	Energy	29.99	26,488	26,488	29.93	31.80	792,774	-	-	10,630	39,024	842,427	33,399	10.7%	14.2%	11.3%
UK subtotal in $000's		**7 shares**			**ex-rate**	**0.5039**	**0.4814**	**5,610**	**-**	**-**	**32**	**266**	**5,908**	**67**	**6.5%**	**12.5%**	**4.4%**
AI	Air Liquide	Primary	150.28	5,375	5,375	153.33	153.49	824,144	-	-	-23,549	24,421	825,016	-	0.1%	9.1%	4.1%
ABI	Anheuser-Busch Interbrew	Food	119.30	6,286	6,286	132.96	140.48	835,797	-	-	21,124	26,140	883,061	-	5.7%	16.4%	15.9%
BAS	BASF SE	Primary	121.09	6,686	6,686	122.61	117.73	819,791	-	-	-55,962	23,300	787,129	-	-4.0%	-5.5%	-2.1%
DPW	Deutsche Post AG	Services	33.35	20,557	20,557	39.23	40.82	806,397	-	-	7,909	24,840	839,146	-	4.1%	-3.8%	20.0%
FRE	Fresenius SE & Co	Healthcare	52.76	14,100	14,100	58.24	62.92	821,135	-	-	39,745	26,260	887,140	-	8.0%	5.5%	14.6%
BN	Danone	Food	93.20	9,625	9,625	83.75	84.21	806,064	-	-	-19,498	23,993	810,559	-	0.6%	4.1%	-7.6%

Listed shares: Forsyth Barr - Richard Burton

30 September 2014

Code	Company	Industry	Average purchase cost[1]	During the month											Returns		
				Holdings		Price NZD		Values			Gain/loss		End Values	Net dividend			
				Start	End	Start	End	Start	Buys	Sells	Market movement	Currency			Month	Ytd	Since Inception
MC	Moet Hennessy Louis Vuitton	Consumer goods	218.45	3,542	3,542	207.68	207.70	735,599	-	-	-21,693	21,777	735,684	-	0.0%	-1.2%	-3.0%
SAN	Sanofi-Aventis S.A	Healthcare	133.86	6,300	6,300	130.83	141.44	824,204	-	-	40,463	26,376	891,043	-	8.1%	19.5%	4.1%
TEL	Telenor ASA	Services	26.31	28,462	28,462	27.60	28.19	785,530	-	-	-8,789	25,693	802,434	-	2.2%	15.0%	8.9%
UNA	Unilever NV	Consumer goods	51.02	16,604	16,604	49.69	49.97	824,985	-	-	-19,993	24,737	829,730	5,960	1.3%	6.4%	-0.1%
Europe subtotal in $000's		**10 shares**			**ex-rate**	**0.6368**	**0.6180**	**8,084**	**-**	**-**	**-40**	**248**	**8,291**	**6**	**2.6%**	**6.2%**	**5.5%**
NESN	Nestle SA	Food	84.97	8,785	8,785	91.86	93.15	807,007	-	-	-13,155	24,508	818,361	-	1.4%	9.9%	8.9%
NOVN	Novartis AG	Healthcare	96.86	7,700	7,700	106.77	119.13	822,135	-	-	67,676	27,471	917,282	-	11.6%	26.2%	28.0%
Swiss subtotal in $000's		**2 shares**			**ex-rate**	**0.7680**	**0.7450**	**1,629**	**-**	**-**	**55**	**52**	**1,736**	**-**	**6.5%**	**18.0%**	**16.2%**
Overall shares in $000's		**57 shares**						**46,040**	**-**	**-**	**-247**	**1,807**	**47,600**	**225**	**3.9%**	**11.0%**	**9.9%**
Liquidity in $000's								**114**	**-**	**46**	**-2**		**158**	**0**	**-1.0%**	**-0.2%**	**1.0%**
Overall asset in $000's								**46,154**	**-**	**46**	**-249**	**1,807**	**47,758**	**225**	**3.9%**	**10.9%**	**10.0%**

Note: [1] "Average purchase cost" figures are for since inception period.
[2] Air Liquide received 462 shares from a 1:10 bonus issue in June 2014
[3] Fresenius received 9,400 shares from a 3:1 share split in August 2014

Technical notes

This page sets out details of key investment managers and details of the market benchmarks used.

	Appointment date	Current management
Overall	Apr 1997	
Private equity	Jun 2013	Pioneer Capital Partners
Listed shares	May 2013	Elevation Capital & Forsyth Barr listed shares
OS bonds	May 2013	Pimco
NZ bonds	Nov 2002	Self-managed through Forsyth Barr Esam Cushing
OS shares FX hedging	Apr 2000	BNZ
NZ shares	Jul 1999	Forsyth Barr
Cash	Apr 1997	Self-managed
Market sector returns are calculated based on the general market movement applicable to a non-taxpayer.		

Market indices:

Total shares	MSCI world net div (50% hedged)
Elevation Capital / Forsyth Barr listed shares	MSCI world net div (currency unhedged)
Shares	MSCI world net div
Currency hedging	50% of currency movement
NZ bonds - self-managed	ANZ Corp A grade index
OS bonds hedged - Pimco	Citigroup WGBI Index (100% hedged)
Self-managed - cash	NZX call rate

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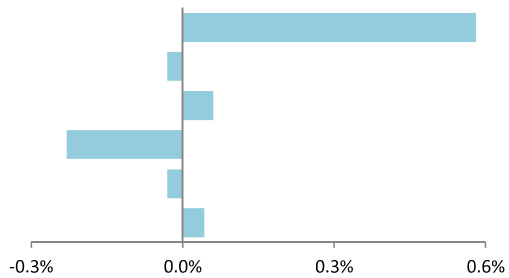
Environment and market statistics

90-day bank bill rates

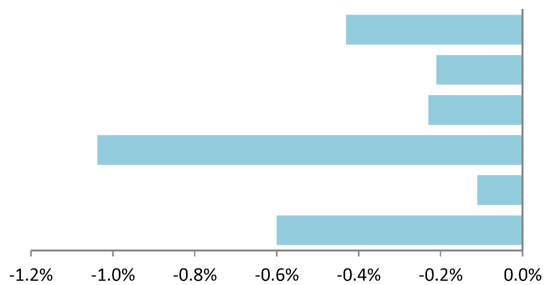
	Start of year 1 Apr 2014	Start of period 1 Sep 2014	End of period 30 Sep 2014	Movement Month	Movement Year-to-date
NZ	3.12%	3.71%	3.70%	(0.01%)	0.58%
US	0.05%	0.03%	0.02%	(0.01%)	(0.03%)
UK	0.42%	0.40%	0.48%	0.08%	0.06%
Euro	0.31%	0.16%	0.08%	(0.08%)	(0.23%)
Japan	0.09%	0.08%	0.06%	(0.02%)	(0.03%)
Australia	2.67%	2.63%	2.71%	0.08%	0.04%

Year-to-date (change)



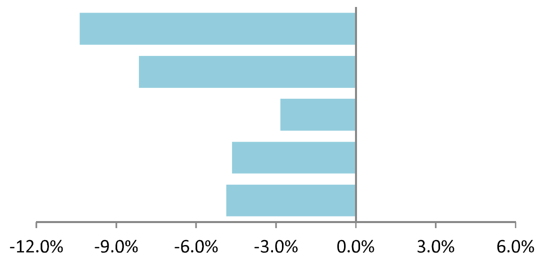
10 year government bond yields

	Start of year 1 Apr 2014	Start of period 1 Sep 2014	End of period 30 Sep 2014	Movement Month	Movement Year-to-date
NZ	4.57%	4.08%	4.14%	0.06%	(0.43%)
US	2.73%	2.35%	2.52%	0.17%	(0.21%)
UK	2.72%	2.54%	2.49%	(0.05%)	(0.23%)
Euro	2.89%	1.99%	1.85%	(0.14%)	(1.04%)
Japan	0.63%	0.49%	0.52%	0.03%	(0.11%)
Australia	4.08%	3.30%	3.48%	0.19%	(0.60%)



Exchange rates

NZ$:	Start of year 1 Apr 2014	Start of period 1 Sep 2014	End of period 30 Sep 2014	Movement Month	Movement Year-to-date
US	0.8664	0.8377	0.7767	(7.3%)	(10.4%)
UK	0.5206	0.5050	0.4782	(5.3%)	(8.1%)
Euro	0.6299	0.6354	0.6121	(3.7%)	(2.8%)
Yen	89.15	86.86	85.0100	(2.1%)	(4.6%)
Australia	0.9364	0.8953	0.8910	(0.5%)	(4.8%)



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Environment and market statistics

Sharemarket returns (local currency)

	Month	Year-to-date	Last 12 months	Last 3 years (p.a.)	Last 5 years (p.a.)
US (S&P 500)	(1.6%)	5.3%	17.3%	20.4%	13.3%
UK (FTSE 100)	(2.9%)	0.4%	2.5%	2.9%	9.3%
Germany (DAX)	0.0%	(0.9%)	10.2%	8.0%	14.7%
France (CAC 40)	0.8%	0.6%	6.6%	2.5%	6.9%
Japan (Nikkei 225)	4.9%	9.1%	11.9%	18.0%	12.9%
Australia (ASX 200)	(5.4%)	0.3%	5.9%	8.8%	12.2%
NZ (NZX 50)	0.6%	2.2%	11.0%	14.3%	13.9%

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Note:

1. Year-to-date is the period since 1 April 2014.
2. The exchange rates are those on the Reserve Bank website. These are generally updated at 11am each day. The actual exchange rates for the hedging contracts will be the bank's close of business rates, which will be a different exchange rate. The movement in rates from 11am to 11am may be materially different from close of business to close of business.

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Report type:	Executive Recommendations
Recommendation:	The Executive approves/declines the recommendations of the Donations Assessor as outlined below
Agenda item no:	8
Subject:	Discretionary Donation
Responsible for the report:	Donations Manager/Donations Assessor

Purpose of report:	To inform and seek the Executive's approval/decline of donations.

<u>Approvals</u>

Hawkes Bay Ballet & Dance Inc - $2,000 To promote and encourage ballet and dance in Hawkes bay. To assist the Royal NZ Ballet and NZ School of Dance and to develop a cultural and social programme in all fields of dance.

<u>Declines</u>

Hastings Bridge Club Inc - $2,400 to teach people to play bridge.

Jonathan Bell

General Manager

October 23rd 2014

Donation Evaluation

Organisation Name: Hastings Bridge Club Inc
Geographic Location: Hastings
Request No: 23940 **Applicant No:** 4907
Sector: Recreation
Application Type: Discretionary
Tax Status: Tax-exempt (amateur sport) **Legal Status:** Incorporated society

Principal Officers/Personnel/Trustees

Contact: Trevor Gane
Address: P O Box 867
HASTINGS 4156

Chairperson: Trevor Gane
Secretary:
Treasurer: Julie Solomon
Secretary/Treasurer:

Aim of Organisation
To teach people to play bridge, which in turn gives them a life long source of entertainment.

# of Staff:		**# of Volunteers:**	13
# of Members:	200	**Established:**	02/03/1965
# of Beneficiaries:			

Current Application

Project Description
History booklet printing.

Project Costs

Description	Total Amount	Other Funding	Requested	Recommended
Publications - history booklet x 400	$2,392	$0	$2,400	$0.00

Project Income

Other Funder	Amount	Decision Date	Confirmed
	$		

Shortfall Raising Description
Registrations for jubilee.

Previous Funding

Year	Application type	Amount	Project
2010		$1,500	a computer lockable storage unit
2011		$4,000	re-covering chairs

Financial Position

Financial Year: 30/09/2013			
Revenue		**Term Assets**	
Income	$35,027	Fixed assets	$387,256
Total	$35,027	**Total**	$387,256
Expenses		**Current Assets**	
Expenses	$26,330	Current assets	$66,567
Depreciation	$2,141	**Total**	$66,567
Total	$28,471	**Term Liabilities**	
			$
		Total	$0
		Current Liabilities	
		Current liabilities	$8,259
		Total	$8,259
Net Income:	$6,556	**Net Assets:**	$445,564

Tagged Funds

Description	Amount
Carpark resealing	**$**20,000

Accounts prepared by: Prepared by Organisation

Visits

Visit Date	Purpose of Visit

Comments and Analysis
Advisor: Bev Watkins **Policy:** Meets Policy

Project Background
Keep members and ex members up to date with the happenings of the Hastings Bridge Club.

Project Management
The Hastings and Napier Bridge Clubs devolved from the Hawke's Bay Bridge Club in 1964. The Hastings Club appears well run and regularly generates financial surpluses.

General Comments
There is very little information contained in this application. The Jubilee will be held in early November and one would have to suspect that the booklets have already been printed. There is no information about the content of the booklet and whether it has wider interest than just the club membership. It will be 60 A5 pages and will cost $5.98 excluding gst each to produce. Recommend decline

Recommended Amount
$0 for jubilee celebration booklet

Donation Evaluation

Organisation Name: Hawke's Bay Ballet & Dance Inc
Geographic Location: Napier
Request No: 23948 **Applicant No:** 6545
Sector: Arts and Culture
Application Type: Discretionary
Tax Status: Tax-exempt (charity) **Legal Status:** Incorporated society

Principal Officers/Personnel/Trustees

Contact: Annette Mossman
Address: P O Box 129
NAPIER 4140

Chairperson: Julie Briasco
Secretary: Stephanie Bond
Treasurer: Annette Mossman
Secretary/Treasurer:

Aim of Organisation
To promote and encourage ballet and dance in Hawke's Bay. To assist Royal NZ Ballet and NZ School of Dance and to develop a cultural and social programme in all fields of dance.

# of Staff:		**# of Volunteers:**	8
# of Members:	40	**Established:**	22/09/1978
# of Beneficiaries:	700		

Current Application
Project Description
Venue hire.

Project Costs

Description	Total Amount	Other Funding	Requested	Recommended
Venue hire - annual dance festival 6-9 November	$4,300	$2,000	$2,000	$2,000.00

Project Income

Other Funder	Amount	Decision Date	Confirmed
Endeavour Community Foundation	$2,000		

Shortfall Raising Description
Other expenses such as travel and accommodation for guest artists will be covered by ticket sales.

Previous Funding

Year	Application type	Amount	Project
2009		$2,000	advertising & printing souvenier booklet
2011		$2,000	Combined Dance Festival venue hire

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Financial Position

Financial Year: 31/03/2014

Revenue	
Income	$10,472
Total	$10,472
Expenses	
Expenses	$15,655
Total	$15,655
Net Income:	$-5,183

Term Assets	
Fixed assets	$200
Investments/shares	$67,334
Total	$67,534
Current Assets	
Current assets	$15,803
Total	$15,803
Term Liabilities	
	$
Total	$0
Current Liabilities	
Current liabilities	$5,420
Total	$5,420
Net Assets:	$77,917

Tagged Funds

Description	Amount
2015 scholarships	$10,000

Notes

Loss follows a surplus of $1500 for the previous year.

Accounts prepared by:

Visits

Visit Date	Purpose of Visit

Comments and Analysis

Advisor: Bev Watkins **Policy:** Meets Policy

Project Background

This festival offers around 250 dancers from the greater Hawke's Bay to perform in a large theatre, come together and entertain the public.

Project Management

This organisation is registered with the Charities Commisssion and provides a link betwwen dance teachers and regional/national ballet.

General Comments

This is an annual event and this year they are seeking support from ECCT for venue hire. The event is happening before the Trust's next meeting. Support is recommended as requested.

Recommended Amount

$2,000 for venue hire for annual dance festival

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Report type:	Executive/Board Information Papers
Recommendation:	The Executive reviews the Hedging Reports as provided by Michael Chamberlain Associates and the General Manager
Agenda item no:	9
Subject:	Hedging Reports
Responsible for the report:	General Manager

Purpose of report:	To be informed of matters pertaining to the Trusts current hedging exposure to allow am action plan to be developed for hedging contract rollovers.

Attached are the reports and graphs from Michael Chamberlain as well as his comment extracted from his email dated Wednesday 22nd October.
I have not included the one page hedging report which I normally produce for these papers as it may confuse the situation. I would like to comment that at the 30th of September we were -$1,772,296. This was the result of the RBNZ intervening to sell NZ dollars, to which the NZD reacted by dropping considerably. Since that time the NZD/USD has strengthened slightly.
I have gleaned commentary from other sources (BNZ, Westpac, AMP, Rabobank and some other market commentary) Apart from Rabobank all are picking a fall in the NZ dollar to an approximate level of 0.74 to 0.75 by the end of 2015. The issue is what they are predicting short term i.e. over the next three to six months, this is where there is some uncertainty. Some are picking the dollar to maintain its current level, some it will fall none are predicting an upward movement.
Ron and I attended a seminar run by Mercer on Monady afternoon, 20th October, the general consensus between the people in the room was that the NZ Dollar is overvalued and will continue to fall, to what level and how fast is the question which no-one seems to have any certainty on.
Please note we have no exposure to the Yen and as such will not be taking any position on that as suggested by michael.
Our hedging rollover is 8th November so we will need to be making a recommendation to the Trustees to consider before that date.
I look forward to some robust debate.

Jonathan Bell
General Manager
23rd October 2014

Jonathan Bell

From: Michael Chamberlain [Michael@mcanz.co.nz]
Sent: Wednesday, 22 October 2014 2:18 p.m.
To: Jonathan Bell
Cc: Spencer Enesa; Mugdha Kulkarni
Subject: Hedging
Attachments: FX data and graphs 2014 10 21.pdf; ECCT - Currency report - 2014.10.21.pdf

Attached are the recent trend graphs for the NZ dollar exchange rates together with the policy framework position. I note:

1. The currency markets are dominated by the fall in the NZ dollar due "bad news" announcements (ISIS, Ebola, Russia etc) coupled with the opportune move by the RBNZ to intervene (ie sell NZ dollars).
2. This is clearly shown in the graph of the US dollar and also the other graphs
3. As a rule the US dollar is normally the last to move back to the neutral position after a shock.
4. If you look at the countries like the UK, Europe and Australia they show signs of recovering off the lows and are back to the trend line. This implies that while the moving averages still show the trend as down the currency has bottomed and will begin the process of rising. It will not show up in the trend average calculations until the RBNZ intervention works its way through the system. Until then we will have an artificially priced exchange rate.

Given eth above, and where the trust has been 50% hedged I would maintain that hedging when it rolls to pick back the recent loses rather than lock the losses in. I would also put a 50% hedge on the Yen but leave the Aussie unhedged.

Michael Chamberlain

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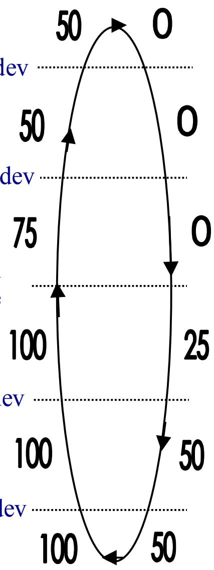
Eastern & Central Community Trust

Equities currency hedging contract position at 21 October 2014



	US$	UK£	Euro	Yen	A$
+2 std dev	85.6	51.5	64.6	93.8	94.8
	79.8	49.4	62.3	85.3	90.8
+1 std dev	74.4	44.9	58.9	82.3	88.9
Long term average	63.2	38.3	53.3	70.7	83.1
-1 std dev	52.0	31.7	47.7	59.1	77.2
-2 std dev	40.8	25.1	42.0	47.6	71.4

	US$	UK£	Euro	Yen	A$
Current exchange rate	0.7975	0.4935	0.6230	85.27	0.9078
Policy position (from the above graph)	0%	0%	0%	0%	0%
Current position	50%	50%	50%	0%	0%
Exposure as at 30 September 2014					
Forsyth Barr	18.25	5.91	10.03		4.56
Elevation Capital	20.02	5.88	6.97		8.40
Total	38.27	11.79	17.00		12.96
Target cover at 21 Oct 14 ($m)	0.0	0.0	0.0	0.0	0.0
Current contract cover	16.50	4.500	7.900		
Strike rate purchased	0.8436	0.5003	0.6290		
Target minus current contract cover =	-16.5	-4.5	-7.9	0.0	0.0
Contract surplus (deficit) ($m)	($0.90)	($0.06)	($0.08)	$0.00	$0.00

Total current contract surplus (deficit) = (1,039,500.76)

Historical hedging actions

8 Aug 2014 - 50% hedged to Euro, UKP and US$; 0% hedged to AUD and Yen; maturity 7 Nov 2014

8 May 2014 - 50% hedged to Euro, UKP and US$; 0% hedged to AUD and Yen; maturity 8 Aug 2014

7 Mar 2014 - 50% hedged to AUD, Euro, UKP and US$; 0% hedged to Yen; maturity 8 May 2014

Notes

USD is used to hedge the currencies of USA, Brazil, Thailand, Malaysia & Hong Kong. Euro is used to hedge the Euro and Switzerland.

The hedging contract for overseas bonds is excluded from this report.

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Exchange rates: current and relative levels

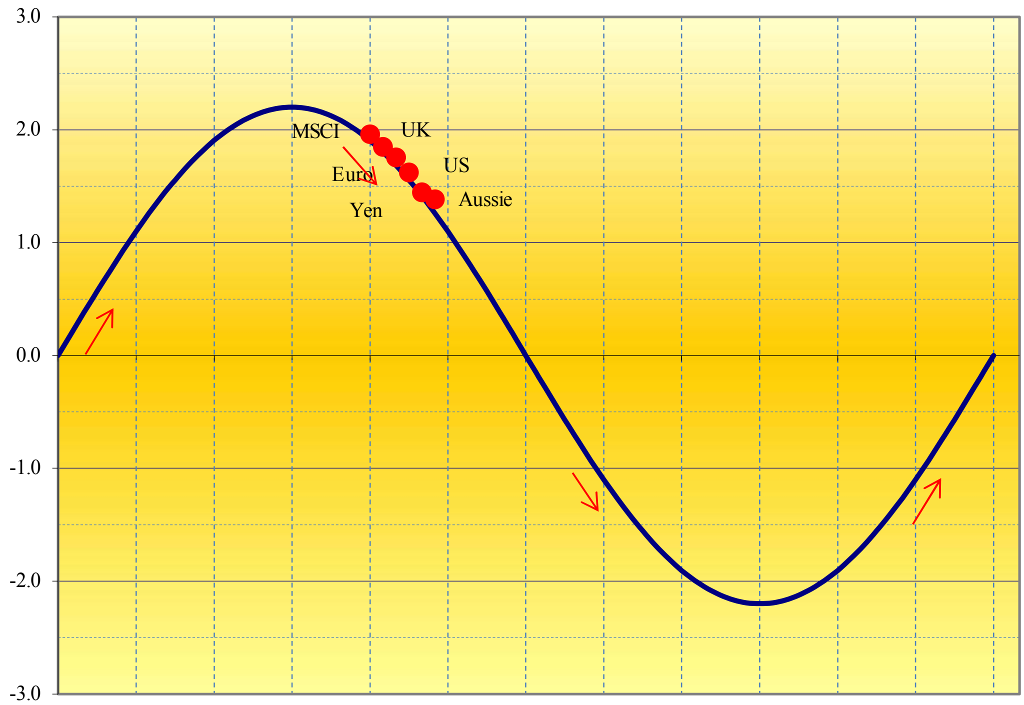
21 October 2014

The data and graphs in these pages are from a NZ dollar perspective.

	US	UK	Aussie	Yen	Euro	China	MSCI weighted
Current level	**0.7975**	**0.4935**	**0.9078**	**85.2700**	**0.6230**	**4.8832**	**0.6781**
Six months ago	0.8575	0.5107	0.9188	88.0100	0.6217	5.3397	0.7100
1-month average trend	down	down	down	down	down	down	down
3-month average trend	down	down	down	down	down	down	down
6-month average trend	down	down	down	down	up	down	down
1-year average trend	down	down	up	up	up	down	down
Historical statistics (post 1986)							
+2 standard deviations	0.8563	0.5145	0.9479	93.8443	0.6458	6.2286	0.6942
+1 standard deviations	0.7442	0.4487	0.8894	82.2734	0.5894	5.5190	0.6201
Average	**0.6321**	**0.3829**	**0.8309**	**70.7025**	**0.5330**	**4.8095**	**0.5460**
-1 standard deviations	0.5200	0.3170	0.7724	59.1316	0.4766	4.0999	0.4719
-2 standard deviations	0.4079	0.2512	0.7138	47.5608	0.4203	3.3904	0.3977

In the stylised trend graph, the level of the exchange rate is plotted relative to the average since 1986. The trend is the moving three month average. 1986 was when the NZ dollar floated.

Stylised trend of exchange rate movements



Note: the movement of the exchange rate does not follow a perfect cycle and may not cycle. It can be observed to fluctuate around an "average" and by mathematical definition will fall within plus or minus one standard deviation 68% of the time.

Currency trends

Exchange rates: current and relative levels

The graphs below plot the NZ dollar and the 3 month trend in the NZ dollar from 31 December 2006 to 21 October 2014, against the long-term average and standard deviations since 1986.

	Current	12 month	6 month	3 month	1 month
US	0.7975	down	down	down	down

China	4.8832	down	down	down	down

Currency trends

Exchange rates: current and relative levels

The graphs below plot the NZ dollar and the 3 month trend in the NZ dollar from 31 December 2006 to 21 October 2014, against the long-term average and standard deviations since 1986.

UK	0.4935	down	down	down	down

Euro	0.6230	up	up	down	down

Currency trends

Exchange rates: current and relative levels

The graphs below plot the NZ dollar and the 3 month trend in the NZ dollar from 31 December 2006 to 21 October 2014, against the long-term average and standard deviations since 1986.

Australia	0.9078	up	down	down	down

Japan	85.2700	up	down	down	down

Currency trends

Exchange rates: current and relative levels

The graphs below plot the NZ dollar and the 3 month trend in the NZ dollar from 31 December 2006 to 21 October 2014, against the long-term average and standard deviations since 1986.

Canada	0.9001	up	down	down	up

Singapore	1.0125	down	down	down	down

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Currency trends

Exchange rates: current and relative levels

The graphs below plot the NZ dollar and the 3 month trend in the NZ dollar from 31 December 2006 to 21 October 2014, against the long-term average and standard deviations since 1986.

MSCI	0.6781	down	down	down	down

Twi	0.7514	down	down	down	down

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Report type:	Executive/Board Information Papers
Recommendation:	The Executive reviews the various investment commentaries and market reviews as provided by the General Manager
Agenda item no:	10
Subject:	Investment Commentaries & Market Reviews
Responsible for the report:	General Manager

Purpose of report:	To be informed of matters pertaining to investments and recent performance of investment markets

16 October 2014

Contents

Economic Outlook

There is limited local data over the coming fortnight but what there is will likely highlight some important features of the economy currently such as another big monthly net migrant inflow and a monthly trade deficit as lower dairy prices start to bite. While the economy, overall, continues to tick along nicely, the latest PMI the most recent evidence of such, there is little sign of inflation. The Q3 CPI is expected to add to this sentiment. There is reason for the Reserve Bank to sound less optimistic at its 30 October OCR Review. The global news, and market volatility, alone have injected some caution, which a lower NZ dollar has only partially accounted for. And while, in terms of local growth, there is still much to offset the poor outlook for dairy income this season, the lack of evidence of inflation will feed the Bank's inclination to pause for a while longer. Still, we doubt the RBNZ will throw the towel in completely, indeed will likely retain its commentary about expecting to hike the OCR a bit further before all is said and done.

Interest Rate Outlook and Strategy

Risk appetite has plunged over the past two weeks. The main contributor appears to be significantly increased global growth concerns (based on recent data delivery and official rhetoric) and ever-present geopolitical risk. Heightened volatility is being seen across asset classes. Oil prices have plunged along with equities. These dynamics (growth, disinflation and risk fears) are supportive of government bond performance. German 10-year bond yields are making new historic lows, at 0.76%. US 10-year yields are at their lowest level since last June, below 2.15%. There appears to be some hyperbole and panic-driven behaviour in recent days' trading relative to actual data evidence. We will be trying to look through the hype and keeping an eye on fundamentals. Most urgently we will be watching the current S&P500 Q3 earnings reporting season.

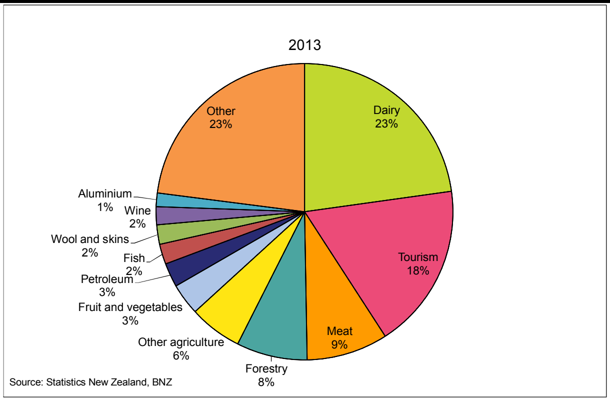
Currency Outlook

We have long-held a relatively aggressive bullish USD view, which has only recently borne fruit after a frustrating first half to 2014. Given investor panic of the recent days, have we lost any conviction on this core view? In short, not really. We see three possible scenarios for the Fed policy outlook here: (1) the Fed remains on course to begin rate hikes in Q2 2015; (2) The Fed delays hikes due to global uncertainty; (3) The Fed delays rate hikes due to US-specific issues. Only the last of those would be associated with USD weakness, and it is also, we judge, the least likely to eventuate. Instead, a collapse in volatility would be the biggest threat to our USD view. We continue to call NZD/USD at 0.78 by year-end, and 0.73 by end-2015.

Dairy Doldrums

- Dairy prices post small bounce at auction, but remain fundamentally weak
- We lower 2014/15 milk price forecast to $4.90
- Multi factors are at play; volatility and uncertainty is high
- Dairy revenue to be circa $5.5b lower over coming 12-18 months
- Highlights the upcoming drag on growth and external accounts

NZ Exports by Major Item



The latest global dairy trade auction brought some sense of relief that prices have stopped falling. Indeed, the overall price index posted its biggest rise for the year, lifting 1.4% from the previous early-October auction.

But make no mistake – the dairy market is weak. Prices have inched off the bottom following a very aggressive sell off on offer and partly supported by reduced volumes. The latter is hardly a positive sign. Prices are down 46% on a year ago. That's very important for the dairy industry and for the NZ economy as a whole, given the sector accounts for around a quarter of the nation's total exports.

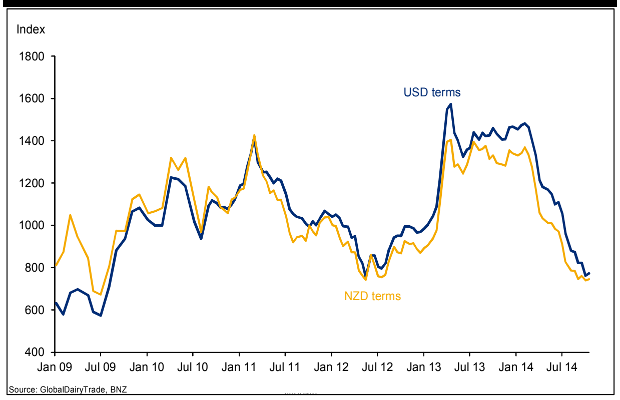
There are many factors and dynamics at play in the global dairy market at present. We would highlight three that we think are the more important ones: ongoing very strong growth in global milk supply (lagged response to previous high prices, favourable weather, and low grain prices); disruption caused by the Russian trade ban on dairy products from the EU, US among others; and question marks around Chinese demand amid reports of high inventory levels.

There remains clear downside risk to Fonterra's current $5.30 per kilogram of milksolids forecast for the 2014/15 season. That forecast is predicated on a strong bounce in world prices one that we struggle to see given current indicators. These risks are not new but we formally account for them today by revising down our own milk price view to $4.90 from $5.30 previously. Even $4.90 requires some bounce in prices over coming months and/or a further material fall in the NZD. Combined with some increase in milk production this season, the milk price reduction from last season's $8.40 equates to a slump in dairy revenue over the coming 12-18 months in the order of $5.5 billion or the equivalent of about 2.3% of GDP.

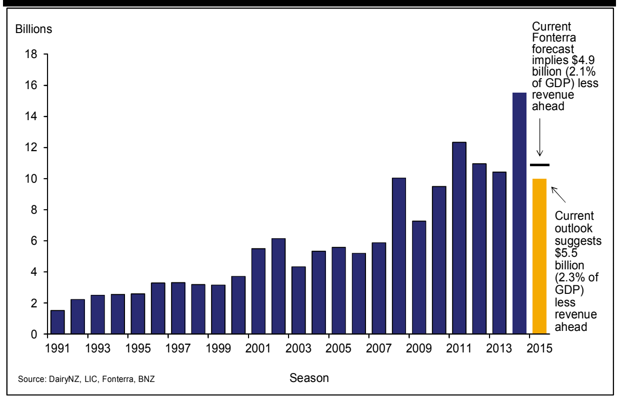
Lower dairy prices will be a drag on economic growth and the external accounts. The dairy price slump is part of why we see slower economic growth, lower terms of trade and a wider current account deficit ahead.

Note that the drag on real growth will be indirect, via the reduced spending power of the dairy sector. Ironically, dairy's direct contribution to real GDP growth over coming quarters could well be positive as production rises. The season has certainty started well as production builds to its usual seasonal peak in October. Fonterra reported a 3.9% lift in milk production in September compared to the same month a year earlier. It suggests some upside risk to our full season production growth forecast of just over 2%. But we'll stick with that for now as we are conscious

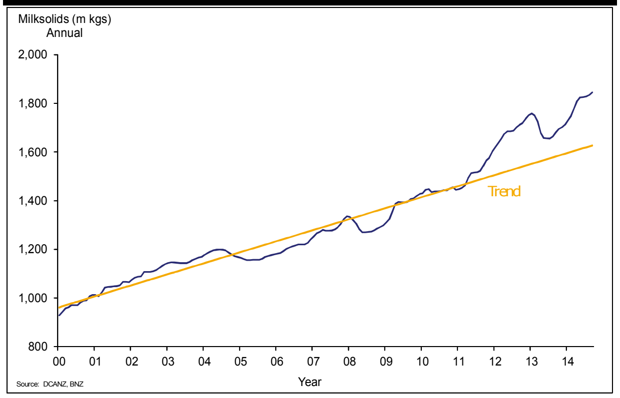
Dairy Auction Prices - GDT



Dairy Revenue Proxy



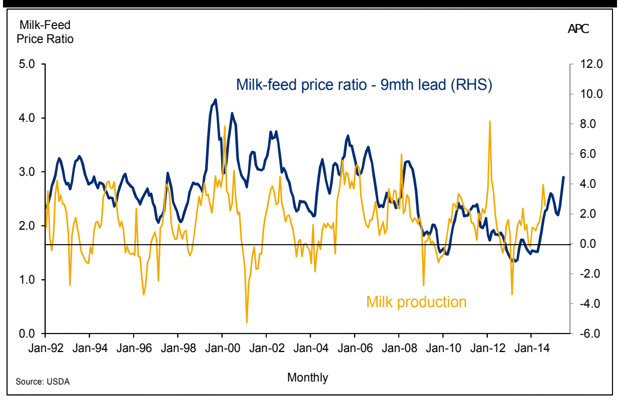
NZ Milksolids Production



of the possibility of an El Nino weather pattern restricting domestic milk production through summer. It would be the last thing local dairy farmers need and certainly not the desired way of generating milk price support.

The ultimate hit to growth from the slump in dairy prices to date will partly depend on what prices do next. Importantly, the current level of prices and NZ dollar – if they were to be sustained – points to an even lower milk price in 2015/16. The 2015/16 outlook will be influential on how much dairy farmers pull back spending as result of the current price slump. It is a long way away but we have a figure just under $6 on the board for the 2015/16 milk price, on the belief that global prices rise in the

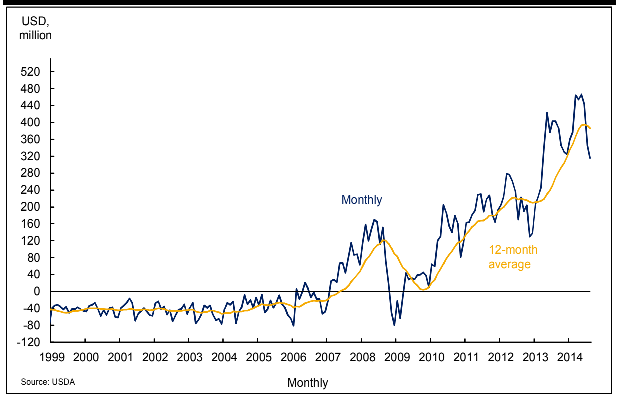
US Milk Production & Milk Price-Feed Ratio



second half of next year and the NZ dollar continues to decline. We will monitor the upcoming auction results as much for what they imply for the 2015/16 season as for the current milk year.

We think dairy prices will remain generally subdued before a genuine recovery takes place into the second half of next year. More inventory in Europe is part of this view. So too a relaxation of the current Russian ban late next year. And grain prices remain important. While they have bounced off the bottom recently, US grain prices remain low and, relative to US milk prices, are still at a level that is encouraging US dairy farmers to make even more, not less, milk. Indeed, the current milk-price-to-feed ratio suggests the USDA's 2015 forecast 3% rise in US milk production might be on the light side. On the positive side for global prices, the US internal dairy market still looks strong and there are signs that US exports are easing as they become less competitive (something a stronger US dollar would reinfore).

US Dairy Product Net Exports



As noted above, there are many factors in play suggesting any forecast has a wide error bound around it. If there wasn't enough going on in the international dairy market to weigh up, a quick look at the extreme volatility in wider financial markets over recent weeks suggests there are other things that could very quickly and dramatically change the evolution of the global economy and the dairy market with it. We live in interesting times.

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Manufacturing Landscape

Overview

New Zealand's manufacturing activity stalled in the June quarter. However there are signs that it picked up in the September quarter, potentially with some gusto. With reference to the latest GDP accounts, manufacturing production volumes declined a seasonally 0.7% in Q2. This reduced its annual growth rate to 3.3%, from 3.6%. However, we expect manufacturing GDP to rebound about 1.5% in Q3 (as part of the 1.0% we anticipate for Q3 GDP, overall). This is partly based on an assumed jump in food processing, following the 1.1% fall in the GDP category of food-beverage and tobacco manufacturing in the Q2 GDP accounts. For all the valid concerns about dairy price levels, dairy production looked solid in Q3.

Sales

Acceleration in Q3 manufacturing activity has certainly been the theme of the Performance of Manufacturing Index over recent months. Indeed, the PMI hit a seasonally adjusted 58.1 in September, compared to 57.0 in August and the recent low of 52.7 back in May. This pick-up has been relatively well spread across industry type, firm size and the standard breakdowns of production, orders, employment, stocks and deliveries. By industry, the (unadjusted) 70.9 result for the PMI component of food, beverage and tobacco aligned with our view that agriculture processing will bounce in Q3, having registered a (mostly technical) dip in Q2.

Foreign exchange

The NZ dollar is beginning to look tired of being so very high, as we thought would start to be the case this year. NZD/USD has fallen about 4% over the last month and 11% compared to the peak of around 0.8800 back in July. We target 0.7800 for end-2014 and 0.7300 for end-2015. While the NZD moderations against AUD, EUR, JPY and GBP haven't been as big, the increasingly important NZD/CNY exchange rate has dropped at least as much as NZD/USD has over recent months. While the falling currency will help revenue of manufactured goods exporters it also puts upward pressure on import costs and makes foreign-exchange debt harder to service.

Construction

While dairy export prices and the outlook for dairy farmer income are becoming problematic, New Zealand's construction industry is looking stronger by the day. The growth impulse from Canterbury's reconstruction might be peaking soon, but only a fraction of the estimated $45bn of work has been completed so far. Meanwhile, Auckland's building and infrastructure work program is looking bigger and bigger. While architects in the very latest NZIER Quarterly Survey of Business Opinion became less positive on residential building activity their outlook for commercial work stayed exceptionally strong.

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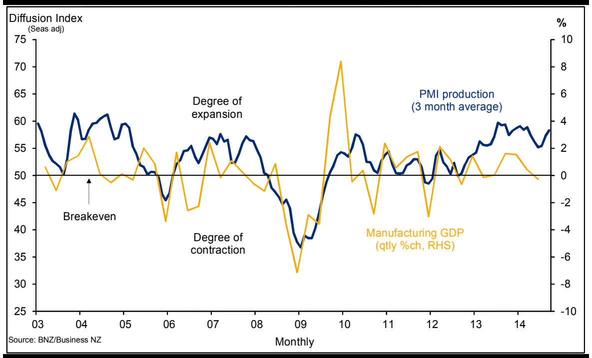
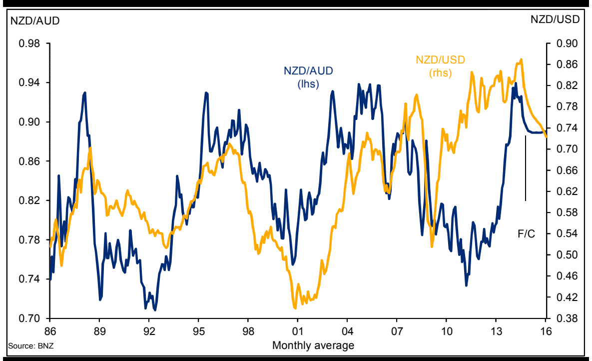
Manufacturing GDP

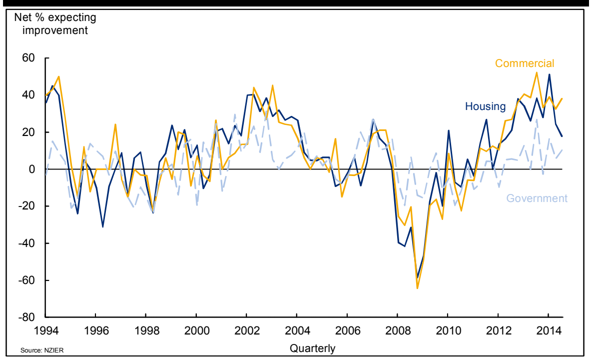
PMI Production and Manufacturing GDP



NZD



Architects' Work Expectations – Next 12 Months



A Global & Australian Economic Perspective

- Global growth becoming patchier/divergent
- But pick-up still seen for 2015, US-led
- Inflation trends/threats dispatching
- NAB business survey softer, but not too bad

Global

Global growth was around a 3% annual pacein the first half of 2014, below trend and with marked variations in performance between major economies. North America continues to perform strongly with solid growth in both the US and Canada. Although the UK's pace of growth could have peaked, it continues to run at a solid rate while recovery in Japan and the Euro-zone has faltered. Conditions are mixed across the emerging market economies with an upturn in India after some disappointing years, continuing trend slowdown in China, falling output in key Latin American nations like Brazil and Argentina and sluggish growth across most of emerging market East Asia (as the weakness of growth in world trade affects export-driven Asian economies). Global growth should quicken next year to a still sub-trend 3.4%, largely driven by the US and India.

- There is a growing divergence in monetary policy across the major central banks. The US Federal Reserve seems confident that moderate economic growth will continue and that inflation should be at or below the 2% goal by 2017, allowing for a gradual tightening in policy. The Fed's asset buying program is nearing its end but the fed funds interest rate should remain unchanged for a "considerable time" (rate hikes to commence in mid-2015). In contrast, softer than expected activity in Euro-zone and Japan has constrained inflation pressures, keeping rates and bond yields exceptionally low. Deflation is a risk in the Euro-zone and the Bank of Japan is still trying to escape deflation by getting inflation up to 2% as soon as possible (but core inflation is only 1¼% yoy). Neither the ECB nor the Bank of Japan looks set to end their asset buying programmes soon and a lift in their policy interest rates is probably still years away. Divergent economic and policy conditions are fuelling the long awaited $US appreciation.

- Softness in economic activity in the Euro-zone, Japan and Brazil alongside the trend slowdown in China has offset solid growth in North America and some recovery in India. The result has been a slowing in the pace of global industrial growth through 2014. This slowing, concentrated in post-tax rise Japan and the Euro-zone, mirrors a winding back in confidence levels seen in business surveys, although the results are still consistent with ongoing moderate growth. Global growth in services output has also slowed recently, mainly reflecting lower Japanese spending in the wake of the April tax hike and a slowdown in the Euro-zone. Services output continues to grow rapidly in the UK and big emerging market economies like China, India and Indonesia. Recent business surveys show a modest slowdown in global service sector growth in Q3.

- Although G7 Advanced economy annualised growth quickened in the June quarter, almost all of this occurred in North America (plus a very small contribution from the UK) while Japanese output fell and Euro-zone production stagnated. Recent business surveys point to continued growth in the big advanced economies, but suggest a loss of momentum in the September quarter. Nevertheless, the surveys show a marked difference across the big advanced economies. The principal concern at present is the extent to which advanced economy growth is being driven by just one big economy – the US – with recent GDP releases, partial economic indicators and surveys highlighting continued weakness in Japan and the Euro-zone.

- Emerging market economies are growing much faster than the advanced economies, but the pace of expansion has steadily eased. Latin America has seen the sharpest slowing, with GDP falling in both Brazil and Argentina in Q2 – confidence in the latter was hit by a default on its external debt. India has picked up through mid-2014. In contrast, Chinese growth is gradually slowing and growth across the rest of emerging East Asia has gradually eased and is well below long-run averages. The monthly economic indicators show emerging economy industrial growth running around the trend pace seen through the last few years but well below pre-GFC levels. World trade growth remains sluggish, but exports growth from emerging market economies has accelerated, largely reflecting better Chinese exports.

- Continuation of the economic upturns in North America and the UK looks reasonably assured, but the Euro-zone and Japan remain in doubt and we expect growth to remain modest for both; April's tax hike hit Japanese growth harder than expected and another rise is planned for next October. Moreover, recent economic indicators in the core countries of the Euro-zone look disturbingly soft. Emerging market growth is expected to pick-up, reflecting stronger Indian growth and a recovery in Latin America. Global growth should accelerate from 3% in 2014 to just under 3½% next year and slightly over 3½% in 2016 – leaving it still slightly below its long-run trend. Consequently, inflation pressures will be limited, allowing central banks to keep policy interest rates low.

Australia

Retreating confidence and conditions, and a likely sharp decline in the terms of trade point to a weak Q3. In September, capacity utilisation continued falling, forward orders declined and employment slumped further into negative territory. There are still few signs of a sustained increase in non-mining investment to fill the emerging mining investment cliff. However, the easing in the AUD should assist trade-exposed sectors. Business credit barely grew in August and remains very weak. The terms of trade profile is weaker in response to sharp declines in commodity prices. Consequently, we revise down our GDP forecasts modestly: namely 2014/15 2.8% (was 2.9%) and 2015/16 3.2% (was 3.4%). We still anticipate the unemployment rate peaking at around 6½%. No change in the cash rate expected until near the end of 2015.

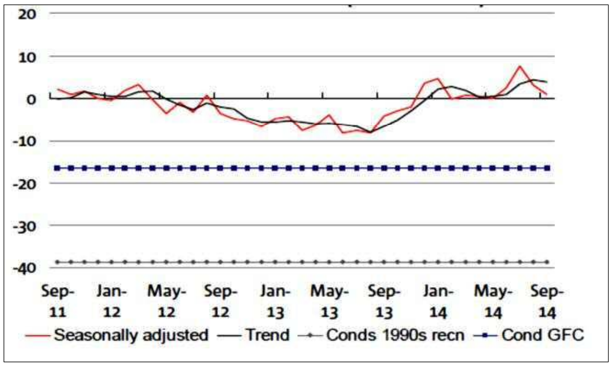
- Statistical issues facing the ABS Labour Force Survey are making it difficult to gauge the Australian labour market. The ABS has effectively suspended the seasonal adjustment of most components of the survey from August on the grounds that there has been a shift away from "normal seasonal patterns" – the published unemployment rate for September was 6.1% (official and if seasonally adjusted). Looking through the volatility in the data, the official employment data still points to a weak labour market. While some forward indicators suggest employment growth will return there is little to suggest it will be strong enough to offset natural growth in job seekers – and hence the unemployment rate will rise further. In that context the weakening in employment in the NAB Survey in September was sobering.

- In the September NAB Business Survey, both conditions and confidence retreated from mid-year improvements, suggesting that Q3 was disappointing. The fall in business conditions brings the index back to its lowest level in 4 months, confirming our expectation that the (narrowly based) jump in July would be short lived. Most industries recorded a drop in September, although transport & utilities were surprisingly strong (falling oil prices and removal of carbon tax?). A drop in profits and employment drove conditions lower, with the latter moving significantly into negative territory (as noted above).

- Forward indicators of demand are soft. Capacity utilisation fell in September, forward orders declined and employment slumped further into negative territory. However, trend conditions in the 'bellwether' wholesale industry are a little less weak. Our wholesale leading indicator implies soft underlying conditions and below trend growth in Q3.

- An improvement in the NAB measure of household wellbeing in Q3 has so far not been reflected in stronger spending. That in part may reflect continuing high levels of consumer anxiety – especially related to long term financial sustainability. Retail trade struggled again in August, edging up by just 0.1%.

Better Conditions Eroding Away – Business Confidence (net balance)



After stepping up during 2013, retail trade has grown by an insipid 1.1% since January 2014, with department stores particularly weak, and softness in clothing/footwear/accessories and household goods. Not surprisingly, retail business conditions remain deeply in negative territory, especially sales and profits. Online retail trade growth, while still higher than traditional retailing, also slowed in August. The weakness in consumer spending is mirrored in soft demand for credit: personal credit grew just 0.2% in August (up 1.1% yoy).

- The housing market has been a source of strength over the past year or more. According to RP Data-Rismark dwelling prices rose again at a solid rate in Sydney (0.8%) and rises were also recorded in Adelaide (0.9%) and Brisbane (0.7%). Prices dropped in Melbourne and Perth. Housing credit growth remains historically subdued and continues to be tilted towards investors. The RBA expressed concern about the composition of housing and mortgage market activity in its recent Financial Stability Review and indicated that it was discussing with APRA measures to reinforce "sound lending practices" with respect to investor finance.

- Building approvals for apartments, especially large projects, have picked up recently but permits for detached houses remain subdued. HIA new home sales recovered some lost ground in August, predominantly through multi-unit dwellings, in line with trends in approvals. Forward indicators for the buildings component of business investment have improved modestly in recent months, and this is predominantly in the non-mining sector. We expect engineering construction to continue to weaken as more major resources projects are commissioned.

- Weaker terms of trade and Q3 mean GDP forecasts revised down modestly: 2014/15 2.8% (was 2.9%) and 2015/16 3.2% (was 3.4%). Unemployment rate still to peak at around 6½%. We still expect no change in cash rate until a tightening cycle begins near the end of 2015.

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Oil Market Update

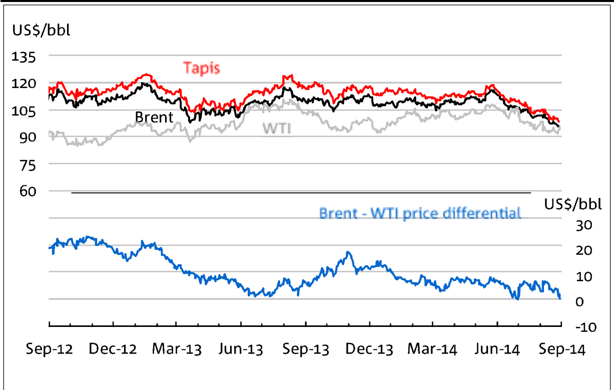
- Since our last Quarterly Oil Market Update in June 2014, global crude oil prices have fallen sharply amid ample supply and weak demand combined with an increasing confidence that turmoil in Iraq is unlikely to disrupt supplies.
- Global supply stood at 91.96 million barrels in August, up 2.1% from the same time in 2013. Growth has been led by increased non-OPEC production, in particular from non-conventional sources in the United States, while OPEC supply has been pushed higher by Libyan production coming back online.
- In contrast to ample supplies, liquid fuel demand has been subdued for the last several months, reflected in higher inventories and lower refinery runs. Slowing economic growth in China, coupled with weakness in Japan and ongoing malaise in much of Europe have pushed expectations of demand lower, despite some optimism returning to the US, UK and India.
- Reflecting these fundamentals, market expectations of oil prices have fallen sharply since June as ample supply and weak demand continue to outweigh concerns over geopolitical tensions in the Middle East.

Recent Price Trends

- Brent averaged US$97.85/barrel in September, down 4.4% for the month, while Tapis fell 4.2% to US$100.67/barrel. WTI also declined, but at a slower rate than Brent or Tapis, falling 3.2% to average US$93.42/barrel in September. Brent ended September trading at US$94.72/barrel, Tapis at US$99.60/barrel and WTI at US$91.17/barrel.

- The Brent-WTI spread has continued to narrow amid abundant global supply, reinforced by a reduced dependence on US oil imports as US production continues to grow. Oil supplies previously earmarked for US delivery are now looking for alternative markets as US import demand falls.

Daily Oil Price



Global Oil Supply

Global oil supply has been increasingly generous throughout 2014, and particularly in the third quarter. The US Energy Information Administration (EIA) reports that global supply stood at 91.96 million barrels in August, up 2.1% from the same time in 2013.

Supply growth has been led by increased non-OPEC production, particularly higher US production from non-conventional sources, while OPEC supply has been pushed higher by Libyan production coming back online.

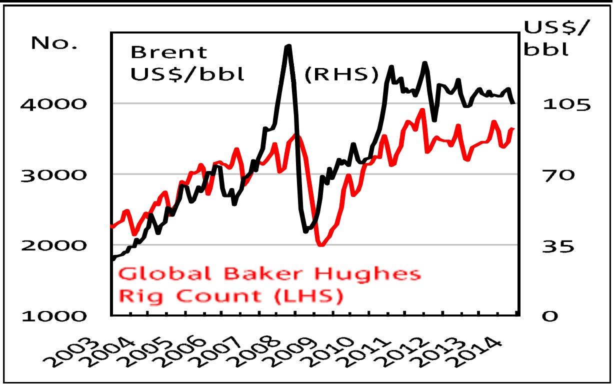
Ample global supply combined with weak demand has led to speculation that OPEC may cut its production quotas. OPEC members are to discuss production at their November meeting, although agreement may be difficult to reach.

Exploration

- Exploration trended up in August despite falling crude oil prices, with the Baker Hughes Global Rig Count reaching 3,642, up 0.9% on July and up 6.6% on the same time in 2013.

- However, we expect that exploration activity could ease in the coming months in response to lower crude oil prices.

Global Crude Oil Supply Response



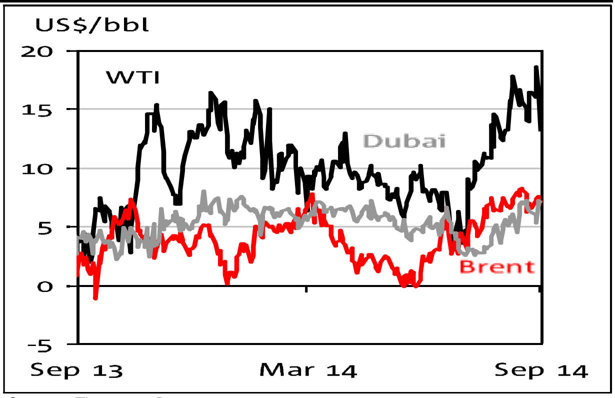
Source: Thomson Datastream and Baker Hughes

Refining

- Refining margins have climbed from their June 2014 lows and have surged in recent months, particularly for WTI which averaged over US$15/barrel in September.

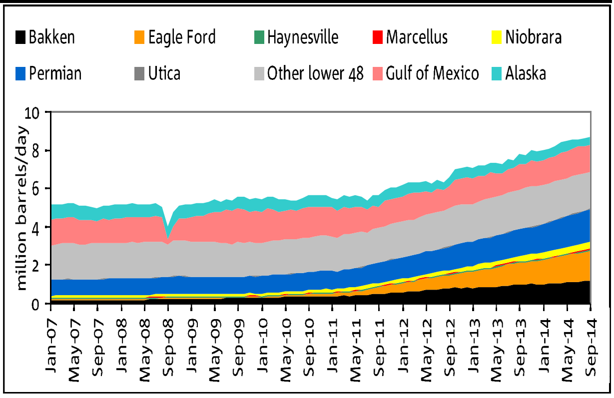
- The primary cause of these stronger margins has been increased supply which has seen lower crude prices. Stronger US production has seen less need for imports, which has in turn led to crude supplies previously destined for the US move to Europe.

Refining Margin



Source: Thomson Datastream

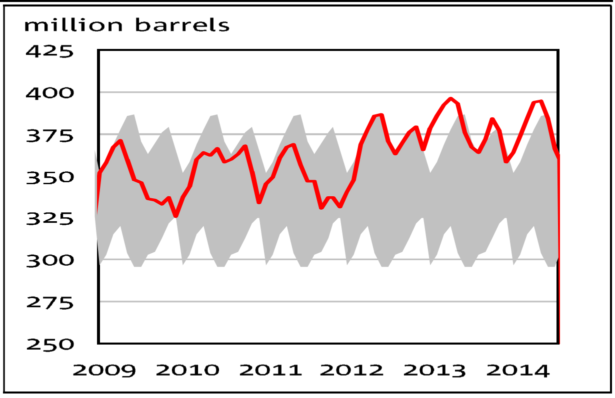
US Monthly Crude Oil Production



Inventories

- Inventories have trended generally higher in 2014, with US total commercial inventories up 7.4% and OECD inventories up 2.2% since January.
- US commercial crude oil stocks declined in August on seasonal factors but remain only 1.2% below the same time in 2013, reflecting higher overall US crude oil supply balanced against improved takeaway capacity from Cushing to Gulf Coast refineries.

US Commercial Crude Oil Stocks (ex SPR*)



In Focus: United States Supply

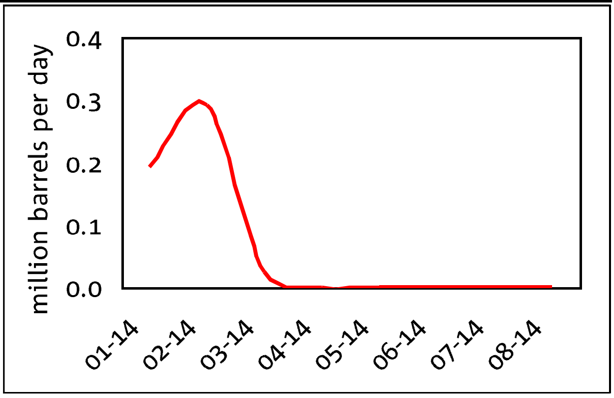
US crude oil production continues to grow strongly on account of rapidly increasing shale oil extraction, particularly from the Eagle Ford, Permian and Bakken plays. The EIA estimates September US crude and liquid fuels production to be 14 million barrels per day.

US production is now the highest since 1986 and is forecast to continue to grow in 2015. The EIA reports that the share of US petroleum and other liquids met by imports has fallen from 60% in 2005 to 32% in 2013 and forecasts an import share of only 21% for 2015 – the lowest since the 1960s. We note, however, that some risks remain around longevity of shale well performance.

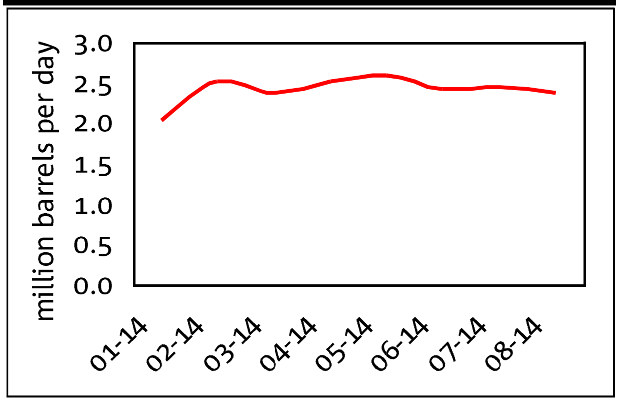
In focus: Iraq Supply

While prices spiked in June in response to a rapid advance of Islamic State terrorists across northern Iraq, markets have since eased as southern production and export through Basra remains largely unaffected. While exports through Kirkuk have ceased, they constituted a small proportion of the market.

Kirkuk Crude Loaded



Basra Crude Loaded



World demand

- Global liquid fuel demand has been subdued for the last several months, reflected in higher inventories and lower refinery runs.

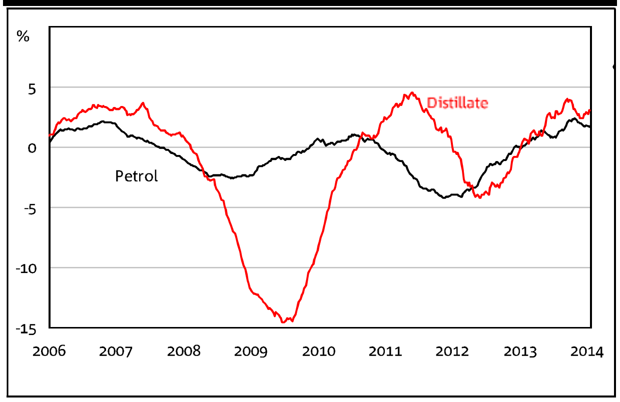
- Weakness in Japan, stagnation in the Euro-zone and a hard landing in Latin America have resulted in a slowdown in the pace of global growth through the first half of 2014. Elsewhere, while economic upturns look secure in North America and the UK, and Indian growth has picked up, China's gradual slowing continues.

- Consumption of both petrol and diesel in the US was down in September on predominantly seasonal factors. Petrol consumption was 4.7% lower and diesel 6.9% lower than in August. Consumption is slightly lower than the same time in 2013 (-0.6% for petrol and -2.3% for diesel).

- Chinese crude oil imports were up 6.0% in August, although caution should be exercised with the series owing to high month to month volatility. There are concerns that increasing weakness in the Chinese residential property market could further weigh on China's growth prospects, leading to weaker oil demand.

- The EIA forecasts that world liquid fuels consumption will increase 1.1% to 91.55 million barrels per day in 2014 and 1.5% to 92.89 million barrels per day in 2015. The International Energy Agency forecasts demand to reach 93.8 million barrels per day in 2015, but has revised down its forecast to reflect slowing demand growth and a weaker outlook for Europe and China.

Weekly US Product Demand: 12 Month Average % Change



Price Outlook: Market Expectations

- Market expectations of oil prices have fallen sharply since June as ample supply and weak demand continue to weigh on sentiment. Mixed economic data, particularly from China and Europe, have seen further price falls.

- While growing US supply has led to calls for a relaxation in US oil export restrictions (and consequently a move closer to parity with Brent), the even sharper price falls for Brent than WTI have somewhat dampened these demands for the immediate future. It is unclear whether the chorus for export liberalisation will grow louder while the US remains a substantial oil importer.

- Backwardation (where futures contracts become cheaper for later deliveries) persists in WTI futures markets as increased pipeline capacity continues to allow a drawdown of inventories at Cushing, Oklahoma. Compounding this effect are continued expectations of ample supply and muted demand, leading sellers to discount future deliveries.

- Sustained lower prices have led to speculation, reported by Bloomberg and others, that OPEC (which produces almost 40% of world crude oil) may cut its production quotas for 2015 when it reviews its target in November. While such a move would place upward pressure on oil prices, it would require the approval of all 12 OPEC member states and agreement may be difficult to achieve.

- The EIA has revised down its 2015 price forecast for Brent from US$105/barrel to US$103/barrel and expects the WTI-Brent spread to average US$8/barrel in 2015.

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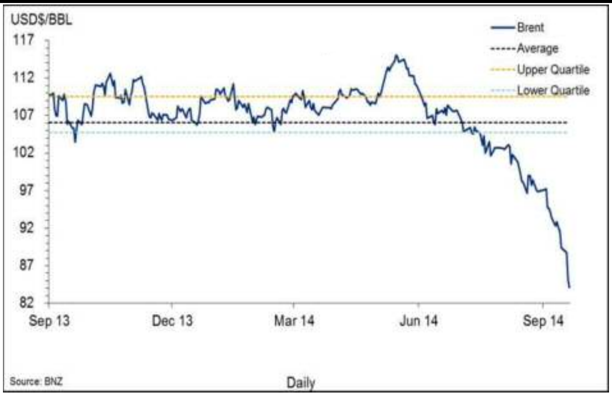
Carbon and Commodities

- Continued commodity price weakness across most assets
- Crude oil prices have fallen more than 20% over the last year, and were off 10% in the last fortnight alone
- Oversupply of physical crude, and weak demand forecasts are the main fundamental drivers of crude weakness
- The rapid fall is also creating an Option delta landslide

Commodity	US$	Change (US$)	Change (Fortnight)	Change (Month)	Change (Year)
Brent Crude	83.68	-1.34	-11.21%	-15.45%	-23.71%
WTI Crude	81.56	-0.28	-10.35%	-13.62%	-20.84%
Copper	6,669.00	-154.34	-0.80%	-2.85%	-9.08%
Zinc	2,274.25	-67.20	0.56%	0.69%	19.32%
Aluminium	1,907.00	-28.57	0.73%	-2.59%	4.26%
Tin	19,585.00	-498.01	-3.62%	-7.12%	-15.91%
Nickel	15,783.00	-502.48	-1.12%	-11.57%	9.60%

The chart below illustrates the ferocity of the parabolic price fall in Brent crude, which has fallen from 115 in June, to below 85 in just 4 months, of which most of the fall has been since early September.

Brent (USD)



There is a continued glut of global physical crude supply, as OPEC continues to pump above their agreed targets and US Shale oil production is at record levels. OPEC members (Venezuela and Iran) have voiced displeasure within the cartel about the level of production, however Saudi Arabia (the largest and most influential member) believes the normal seasonal winter demand will lift prices, and sees no reason to cut production. OPEC is scheduled to meet in late November, which will provide an opportunity to adjust production targets.

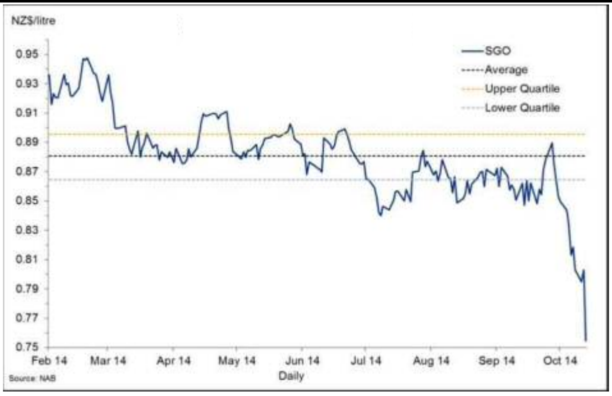
EIA also provided data on Shale oil economics, indicating that only 2% of production is uneconomic at $80, which grows to 18% uneconomic at $60. Given that Shale production is less than 10% of global supply, 2% of oil production will be at risk at $60. This may not be enough of a price regulating supply constraint to ease the oversupply condition.

It's not only a story of oversupply, global demand concerns abound, highlighted by EIA lowering their 2015 demand growth forecasts for the fourth month in a row to just 1.1 million barrels per day. In addition IMF reduced global growth forecasts for 2015 to 3.8%, also recent weak European and Chinese data are all feeding concerns of future weak demand.

The Oil downtrend is gaining some self-fueling momentum from the necessary delta hedging of 75 - 80 - 85 strike put options by banks. These were extremely low delta when spot was above 100 (i.e. very little spot effect), but now have a huge spot effect as banks need to ensure the delta hedge is in line with their open option positions.

NZ spot diesel prices have also plummeted and are now trading near 75c/l, following the generalized oil weakness. NZD bouncing of the lows to mid 79 cent area is also assisting the currency component of the equation.

Spot Singapore Gas Oil



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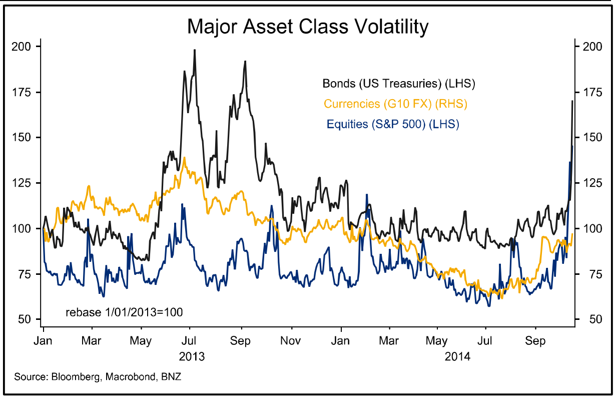
USD: Heads I Win, Tails You Lose

- The current market panic about global growth may end up pushing back Fed Funds Rate hikes…
- …but even in that scenario, we pick the USD to rise
- Apart from the extremely unlikely scenario that the US economy secularly stumbles, a collapse in volatility would be the biggest threat to our USD view

The 34bp plunge in US bond yields last night (and subsequent near-complete reversal) will rank amongst the most memorable market moves in recent times. There was carnage across other financial markets, with the USD losing just shy of 2.0% against the JPY and EUR in the space of two hours, and the S&P 500 staring at a 3.0% single-day loss before regaining its composure. The big winner on the day was volatility.

Volatility Across Asset Classes Has Stormed Higher



For us, the violent moves signified a capitulation of hastily-built USD long positions, which the market had piled into only recently. The market has pushed out its expectations for a Fed Funds Rate (FFR) hike, with the September 2015 meeting now only attracting 36% odds for the first hike, down from over 70% two months ago.

We have long-held a relatively aggressive bullish USD view, which has only recently borne fruit after a frustrating first half to 2014. The third quarter of this year saw the broad Bloomberg Dollar Spot Index gain 7.1%, having been stagnant for the first half of the year. Given investor panic of the recent days, have we lost any conviction on this core view?

In short, not really. We see three possible scenarios for the Fed policy outlook here, and only the least likely of those would be associated with USD weakness.
The three scenarios are:

1) The Fed remains on course to begin FFR hikes in Q2 2015 (our current forecast).
2) The Fed delays FFR hikes due to global uncertainty.
3) The Fed delays FFR hikes due to US-specific issues.

Scenario 1: We Stay The Course

US policymakers have already been on the wires today, trying to alleviate the panic in markets. US Treasury Secretary Jack Lew declared that the US core economic growth path is “very strong”, while Dallas Fed President Richard Fisher noted that it is “way too premature” to be talking about another round of quantitative easing. (To us, the fact that the question was asked is simply another sign of investor hysteria).

Most curiously, just after the worst of the market meltdown this morning, headlines broke that Fed Chair Janet Yellen was said to have expressed confidence in the US economic expansion, despite foreign risks. The news reports cited unnamed sources, who attended a meeting with Yellen on the fringes of IMF/World Bank meetings last weekend. The highly convenient timing of those headlines were met with deep suspicion, and prompted speculation the Fed itself wanted to reassure markets.

Reasonable people can disagree on whether the Fed can stay the course and begin hiking rates in mid-2015. We would agree that there is more downside risk for our Q2 call than upside. But *if* the Fed does remain on track, then the USD should continue to make steady gains.

We assign a probably of 60% to this scenario.

Scenario 2: Global Malaise Forces FFR Hike Delays

This is the investment theme du jour: that waning growth and inflation impetus in China, Japan, and (most starkly) Europe will cause the FOMC to push out the start of policy tightening. Should the weakness elsewhere engender a slowdown in US growth and/or inflation (as might well be the case), this might be an eminently reasonable decision.

But provided that the US economy continues to trundle along, printing monthly employment gains of 200k+, the USD should remain in demand as a relative value trade. Certainly it will remain appealing against the EUR, since the euro-zone seems the most likely candidate to provide the biggest drag on global growth.

We assign a probability of 35% to this scenario

One important exception (which isn’t captured by that probability) is if this push-back in rate hike expectations is accompanied by a collapse in volatility, back to the doldrums observed in Q2. Lower-for-longer US rates and subdued volatility create fertile ground for USD-funded carry trades, the phenomenon which pushed NZD and

AUD well above fair value metrics earlier this year. Clearly, this would be USD negative.

Scenario 3: US-specific Slowdown Delays Rate Hikes

This is the least likely of our three scenarios, and the tone of US data would support that assessment. Simply put, it would require an extraordinary and unexpected meltdown in the US economy to create conditions where the USD is less desirable than, say, the JPY or the EUR.

In fact, the blow to investor confidence in this scenario might even provide some support to the USD, in the form of a flight to safety.

We assign a probability of 5% to this scenario.

Scenario 1 vs 2: In Which Does The USD Gain More?

For us, this is the more interesting question. Intuitively, it would have to be the first scenario, where a growing US interest rate advantage attracts capital inflow. But one can easily make the argument that the USD would strengthen just as strongly in an environment where it is the only attractive option, against the unappealing prospects of other major currencies.

If we had to pick a side, we would back the first scenario to deliver the greater USD gains, but only just. It almost comes down to which currency pair drives the next leg higher in the USD.

Should US interest rates push higher, this should attract the Japanese investor base, who are being encouraged to look abroad for yield. This would see an eventual USD/JPY break of ¥110, toward our 2016 target of ¥120. Given the tendency of JPY to lead weakness against the USD in recent months, we can see this fuelling a broader rally in USD.

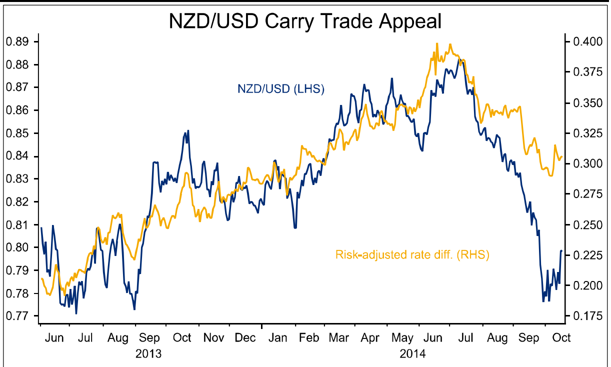
On the other hand, a continued slide in euro-zone inflation expectations, and the inability of policymakers to stave off the risk of deflation (perhaps the ECB's hands remain tied by German opposition to sovereign QE), would see EUR move rapidly toward 1.20. Again, this should inspire broader buying interest in the USD.

And What About The NZD?

Clearly, we still back our core USD bullish view, even with quite different outlooks for US monetary policy, which translates into a relatively bearish NZD view. We retain an end-2014 target of 0.78, and an end-2015 target of 0.73.

The real spanner in the works would be if volatility did drop back to the levels that would encourage carry-trade investors. The risk-reward has become significantly less compelling since the 0.88 peak in NZD/USD, as FX volatility pushed off its lows. We doubt the RBNZ would be best pleased to see that speculative element of the market returning to NZ's shores (and may perhaps be quite nervous about the rather public short position now on their books).

Volatility Has Eroded NZD's Carry Trade Appeal



Source: Bloomberg, Macrobond, BNZ

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FX Momentum Model

Our model's NZD short position has finally been closed out.

- Our model has finally been knocked out of its lucrative short position on NZD/USD by the recent whippy price action. The trade returned 7.9% over the course of three months (entered on 18 July).
- The picture on the crosses also looks decidedly more mixed. The NZD/GBP short position has been neutralised, and returns on the NZD/EUR short position have been pared. The NZD/JPY short position has benefited from the risk-negative market sentiment.

Market volatility has put paid to the wholesale 'buy USD' view our model was taking.

- In the past week, the model has been knocked out of its long USD positions against the EUR and the CHF. The US Dollar Index (DXY) has also been assigned a neutral rating.
- The retracement in JPY has been particularly sharp, helped by risk-off market sentiment. From having been trenchantly short JPY, the model is now long JPY against the USD and AUD.

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BNZ Foreign Exchange Momentum Model

Our momentum model is used primarily as an indicator of speculative account activity, as opposed to a trading tool. The model provides some indication of the levels at which speculative accounts may be entering into long or short positions in the major currencies. It can also provide a steer on how basic trend following/momentum accounts are positioned.

The basic trading algorithm our model uses is as follows:

1. Buy if the price breaks above recent ranges, or sell if it breaks below recent ranges.
2. In exiting a position, the model uses a trailing stop. The stop is set at the previous10-day high or low, but with an additional adjustment factor that sets a wider stop when markets are more volatile.

Together, these two conditions constitute the core of any momentum model, whose central premise is that a break outside of a range indicates that the price will continue in the direction of the break. A couple of extra conditioning filters have been added to our momentum model to try to stop the model reacting to false breaks.

FX Momentum Model Positions

16-Oct-14

Currency pair	Position	Entry date	Entry level	Mkt	Return	Stop	Long trigger	Short trigger
NZD/USD	Neutral	15-Oct-14	0.7974	0.7966			0.8179	0.7709
NZD/AUD	Neutral	26-Sep-14	0.8968	0.9069			0.9158	0.8864
NZD/EUR	Short	12-Sep-14	0.6294	0.6231	1.0%	0.6256		
NZD/GBP	Neutral	14-Oct-14	0.4919	0.4999			0.5008	0.4750
NZD/JPY	Short	25-Sep-14	86.69	84.48	2.6%	86.07		
AUD/USD	Neutral	09-Oct-14	0.8897	0.8785			0.9002	0.8643
AUD/JPY	Short	23-Sep-14	96.37	93.17	3.3%	95.89		
DXY	Neutral	15-Oct-14	84.94	85.13			86.75	84.22
EUR/USD	Neutral	15-Oct-14	1.2791	1.2785			1.2930	1.2501
GBP/USD	Short	03-Oct-14	1.6052	1.5937	0.7%	1.6250		
USD/JPY	Short	13-Oct-14	106.81	106.05	0.7%	108.93		
USD/CHF	Neutral	15-Oct-14	0.9469	0.9435			0.9691	0.9333
USD/CAD	Long	09-Sep-14	1.0998	1.1281	2.6%	1.1072		

Notes: This portfolio represent hypothetical, not actual, investments. Reported returns do not include the cost-of-carry. All trades are entered and exited at triggered levels

The BNZ OIS-ter: Fed Funds Futures Flattened

- RBNZ rate hike expectations have been pared even further, mostly driven by worries about the global economy. A full 25bp rate hike is now not seen until December 2015. Two weeks ago, that hike was fully priced in by July 2015.
- The market is now pricing in the risk of a further rate cut from the RBA, perhaps helped by the fact that a lack of reliable labour market data may delay the eventual policy normalisation. There is a 50% chance of a 25bp cut priced by June 2015.
- Fed Funds Rate expectations have been significantly pushed back, with the market now only pricing the Fed Funds Rate at 1.80% in three years' time, down from 2.36% a fortnight ago. Recall that the median FOMC member sees 3.75% by 2017.
- The market has continued to price out the chance of rate hikes from the BoE this year, as UK policymakers continue to hint at a more dovish stance. A full 25bp rate hike has been pushed out from August 2015, into early 2016.
- ECB interest rate expectations are little changed over the past fortnight, with markets pricing little-to-no chance of a positive policy rate over the foreseeable future.

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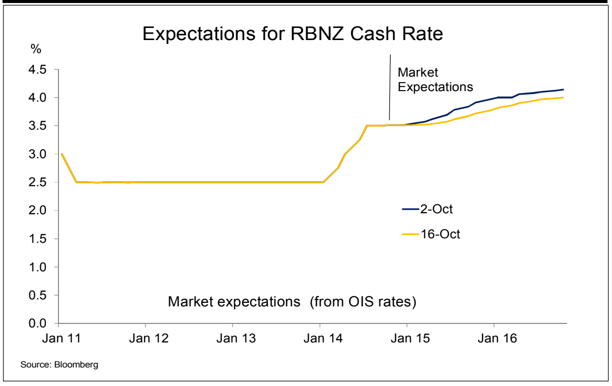
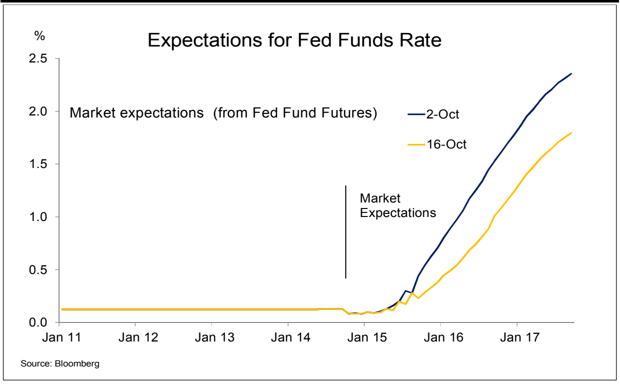
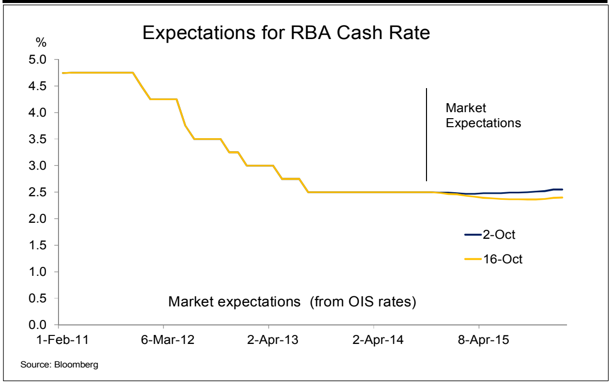
New Zealand



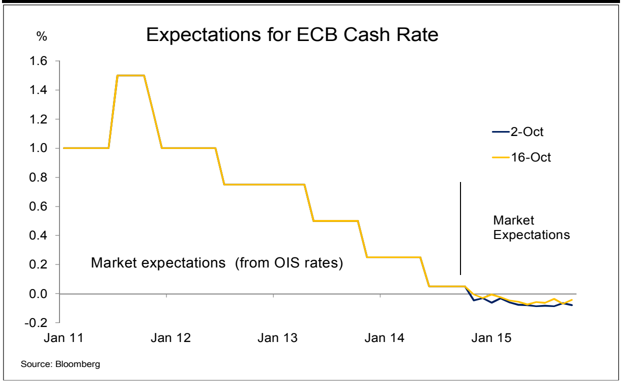
United States



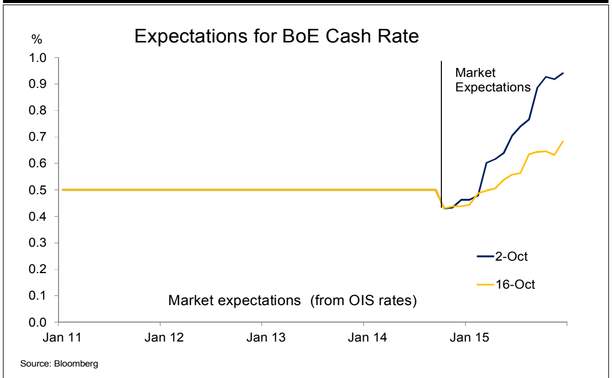
Australia



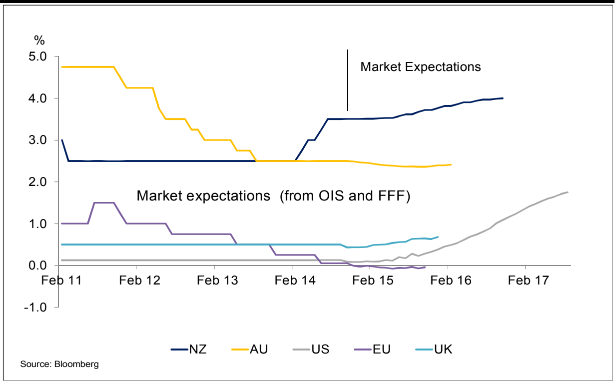
Eurozone



United Kingdom



Cross Country

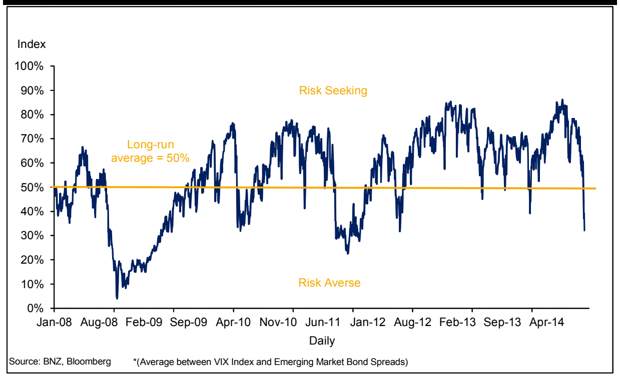


Interest Rate/Credit Strategy: Global Ructions & NZ Credit

- Global risk appetite has plunged
- Equity sector returns suggest growth fear is key driver
- Credit CDX indices have surged
- Market moves may be exaggerated
- But NZ credit spreads will follow if move extends
- Keep eye on fundamentals i.e S&P Q3 earnings season
- Increased market volatility ahead

A fortnight is, once again, a long time in markets. Over this period, our already languishing risk appetite index (scale 0-100%) has fallen further. From 57%, it has fallen to 32%. The main contributor appears to be significantly increased global growth concerns (based on recent data delivery and official rhetoric) and ever-present geopolitical risk. Heightened volatility is being seen across asset classes. Oil prices have plunged along with equities.

Global Risk Appetite Has Plunged



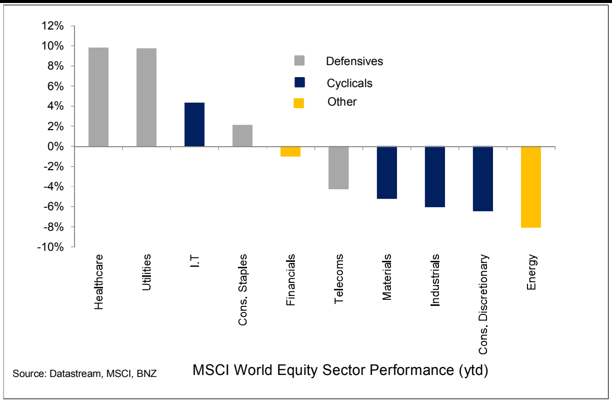
Source: BNZ, Bloomberg *(Average between VIX Index and Emerging Market Bond Spreads)

For much of this year, commentators have expressed concern about the vulnerability of 'risky assets'. This commentary has almost exclusively focused on the vulnerability of credit/equities in a rising rates environment. First, as the market anticipates a cash rate above zero it will feel less inclined/less compelled to search for yield in more risky assets. Second, for assets such as equities, whose valuations often rely on direct reference to a 'risk free' rate, these valuations will appear less attractive as long yields rise.

However, the current pull-back in World Equity Indices appears to be driven by very different factors than the concerns expressed above. It is being driven by global growth fears, not fear of the Fed or higher rates. The sectoral break-down of World Equities performance ytd clearly illustrates this.

Sectors such as Utilities, which act as rate proxies, are outperforming, actually posting solid positive returns (The Utilities sector shows little cyclicality and its performance is significantly determined by investors comparing its

Sector Performance Suggests Cyclical Growth Fears



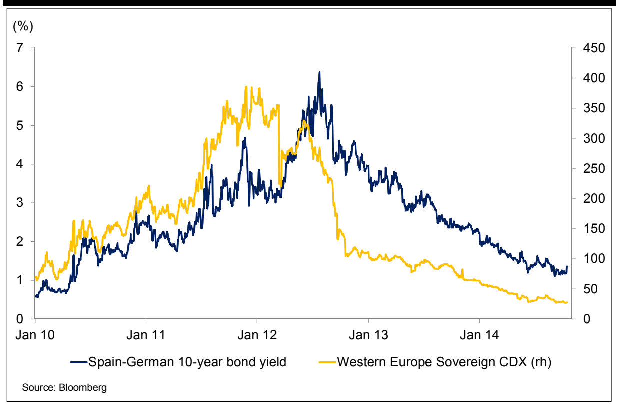
Source: Datastream, MSCI, BNZ MSCI World Equity Sector Performance (ytd)

dividend yield to that of 10-year bond yields). Conversely, sectors that are highly leveraged to the global economic cycle (Materials, Industrials, Consumer Discretionary) are underperforming, posting negative returns.

These dynamics (growth, disinflation and risk fears) are supportive of government bond performance. German 10-year bond yields are making new historic lows, at 0.76%. US 10-year yields are at their lowest level since last June, below 2.15%. However, concerns regarding slowing of the German growth engine and low Eurozone inflation are only slightly increasing perceptions of peripheral Eurozone sovereign risk. The likes of Spanish-German 10-year spreads remain not too far from historic lows. These are likely under-written by the ECB's promise to "do whatever it takes" and the market's expectations it will ultimately engage in QE via sovereign bond purchases. Similarly, Eurozone sovereign CDX (credit default swap) indices have not moved much.

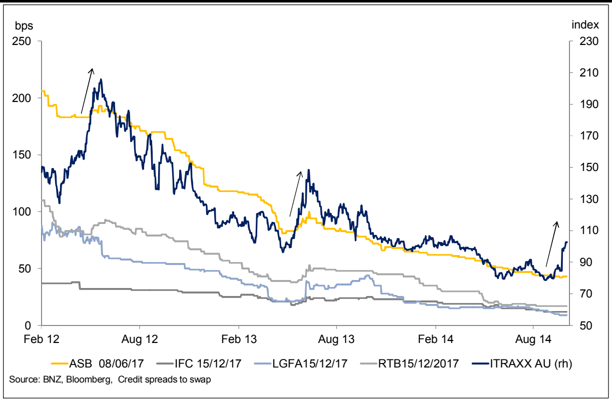
Corporate CDX have not been so fortunate (see global credit indices). There has been a spike higher across regions over the past few weeks. But, as we highlighted last fortnight, NZ credit spreads will initially be well

Only Slight Signs of Eurozone Sovereign Stress



Source: Bloomberg

Global Credit Stress to Extend to NZ Spreads if Sustained



Source: BNZ, Bloomberg, Credit spreads to swap

protected due to lack of primary supply/ limited issuance. However, an extended surge in the Aussie ITraxx is normally a worrying leading indicator for NZ credit spreads.

Aussie ITraxx has now risen almost 30% over the past three weeks. As yet, this does not appear to be being reflected in core NZ credit spreads being marked wider. However, if the current risk-off tone in global markets continues we expect pressure will come on NZ credit spreads.

There appears to be some hyperbole and panic-driven behaviour in recent days trading relative to actual data evidence. We will be trying to look through the hype and keeping an eye on fundamentals. Most urgently we will be watching the current S&P500 Q3 earnings reporting season.

Through all the ups and downs of the past few years, the core support for equity markets has been consistent earnings growth and positive earnings surprises. If this were to turn, a main pillar supporting equity markets will be removed, with negative flow-through to credit spreads.

Regardless, it appears that the era of historically low asset market volatility and complacency may now be behind us. Expect more volatility ahead.

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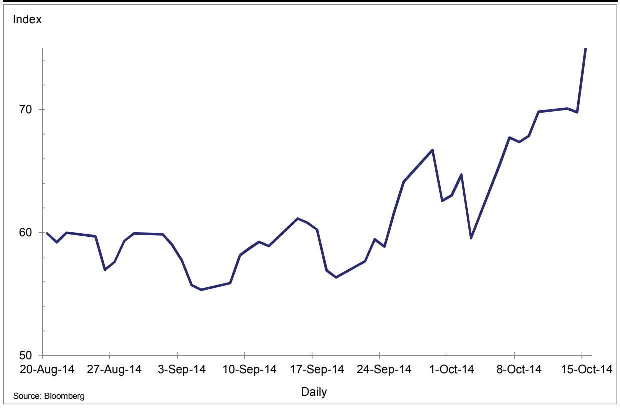
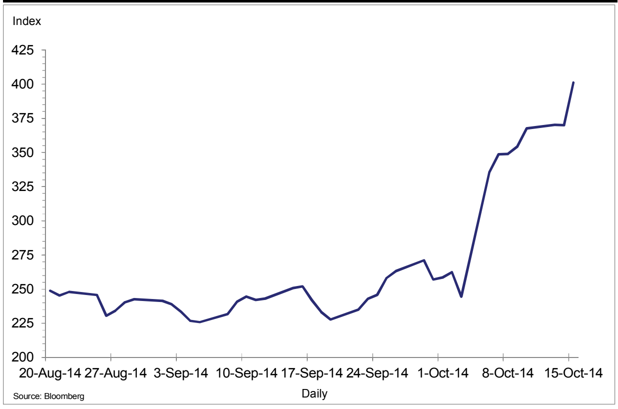
Global Credit Indices

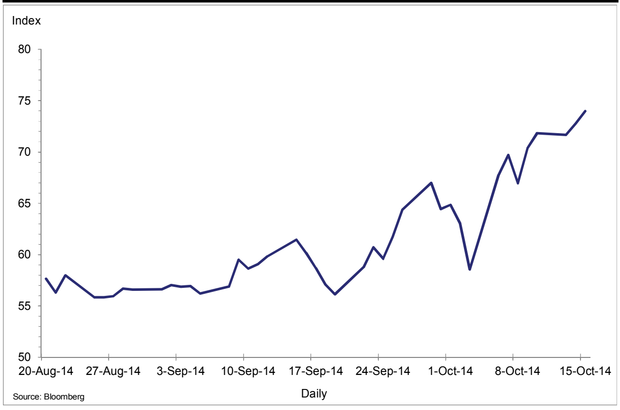
iTraxx Europe Investment Grade Index



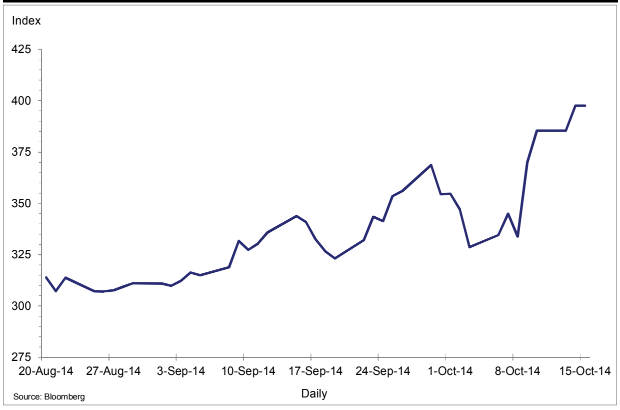
iTraxx Europe Crossover Index



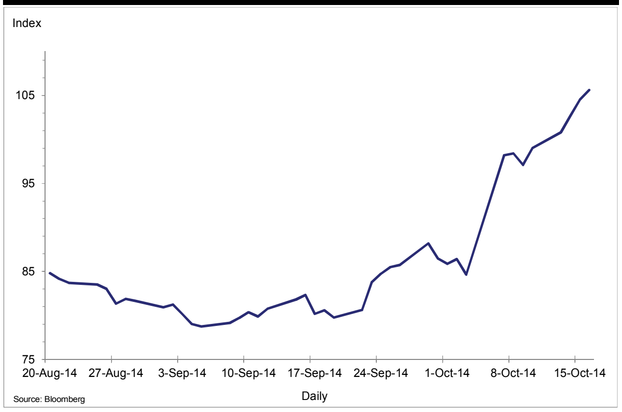
CDX North America Investment Grade Index



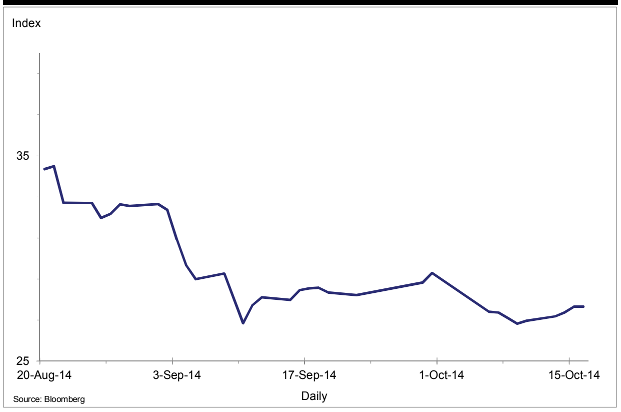
CDX North America High Yield Index



iTraxx Australia Index



iTraxx Western Europe Sovereign Index



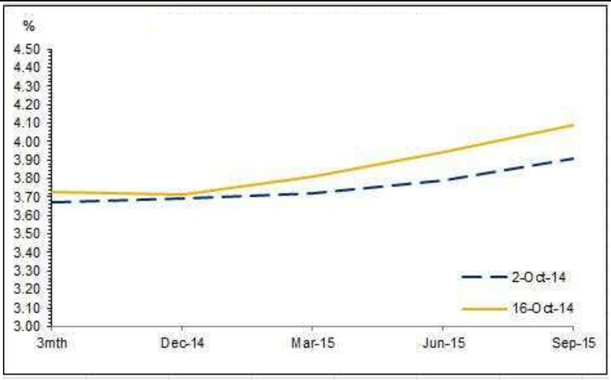
Money Market Strategy

- Relentless offshore rally
- Kiwi market follows, potential to price out further hikes this year

The past two weeks have been dominated by an ongoing offshore rally. Many commentators have been referring to global growth fears which may delay the Fed from tightening as being the cause. Last week members of the Fed stated what had previously been said and what could appear to be quite obvious. The fed tightening may be delayed by slowing global growth. Last week the IMF downgraded its global growth projections. While we have seen some weak data, it has not been weak enough to justify this huge rally. What we have seen is a complete shift in market expectations of the first Fed rate hike, the spooked market appears to now view a similar fundamental picture far more dovishly. The US market has now pushed out its expected first Fed rate hike, from flirting around June 2015 to now preferring December 2015. This sudden re-price peaked last night in a scramble for safety as 10yr US bond yields dropped as low as 1.88%, the market then rejected this extremely low level and sold off half the move. It's difficult to pin point the cause of this surge in volatility however this could be the start of more rampant global markets as we move closer to the Fed being in play.

On the back of this the Kiwi curve has flattened, we now have to go out to the end of next year to see the next hike

NZ 3mth Bill and BBC Futures



fully priced. We maintain the view that the RBNZ are on hold for a while and see the movement following offshore fully justified. We still favour invested positions in the Kiwi front end and would look to add on any reasonable sell off. Next week we have the CPI release, we expect this figure to undershoot RBNZ expectations.

Suggested trading ranges

June15 96.18 – 96.26
Sep15 96.07 – 96.15

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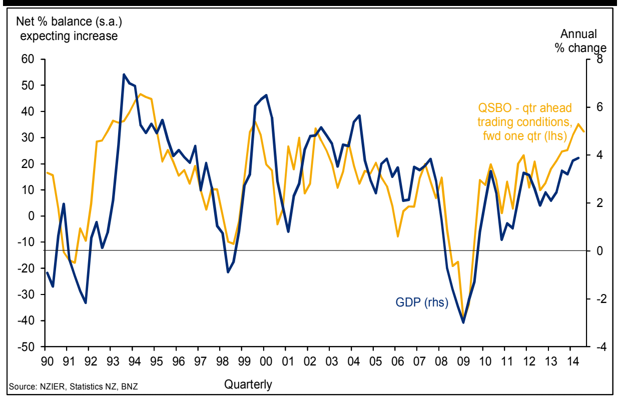
NZ Economic Review

QVNZ Housing Report (Sep) – 6 October
The Quotable Value New Zealand house price measure slowed further – to an annual pace of 6.4% in September, from 6.9%. This was largely in line with our priors and complements the range of other house price information we've seen for the month that has shown a restrained tone, surrounding the 20 September election.

QSBO (Q3) – 7 October
This latest NZIER Quarterly Survey of Business Opinion (QSBO) showed elements of caution with regard to the last few months. However, this might well relate to the proximity of the 20 September General Election. More broadly, and in its outlook, the QSBO remained fairly robust, consistent with recent above-trend rates of economic growth being maintained. The NZIER business survey also continued to signal a pick-up in inflation to above the mid-point of the Reserve Bank's target band.

Economic Growth



Crown Financial Accounts (June-year) – 7 October
The core (OBERAC) operating deficit came it at $2.9b (1.3% of GDP) versus PREFU expectations of $2.6b. Core tax revenue was actually very close to plan. The higher than expected core operating deficit instead reflected tax insufficiencies from State Owned Enterprises and Crown Entities as well as core Crown expenses running $176m over for the year-to-June 2014. Net debt, at $59.9b (26.2% Of GDP) was close to forecast. The real question is whether a core operating surplus can still be achieved this June 2014/15 year, especially with a $5b hit to dairy income in the offing.

Electronic Card Transactions (Sep) – 9 October
We were looking for a 0.7% increase in September's electronic card transactions (market +0.4%). And with upside risk; related to potential boosts from iphone and car sales. So the outturn, of a 0.2% decline, was a double disappointment for us. It doesn't feel like the start of a trend to us (we're picking a good rebound for October). But, from a technical standpoint, September's outcome does minimize the growth we now expect for Q3 retail trade volumes.

Food Price Index (Sep) – 13 October
Seasonally cheaper vegetables (-10.9% m/m) drove the greater than (we) expected 0.8% decline in September's Food Price Index. This increases the risk of the Q3 CPI printing at 0.4% (1.1% y/y) rather than the 0.5% (1.2% y/y) we are sticking with. The Reserve Bank, in its Sept MPS, had +0.7% q/q and +1.3% y/y.

REINZ Housing Report (Sep) – 13 October
While September's residential sales were down 12% on a year ago they have continued to stabilise on a seasonally adjusted levels basis. A severe lack of listings is also at play here (you can't sell what's not on the market). Neither were prices all that soft, although the 0.2% increase in the Stratified Index in September did slow its annual inflation further to 4.1%, from 4.8%. We'll reserve judgement on the housing market until we've seen a few months' worth of post-election data and anecdote.

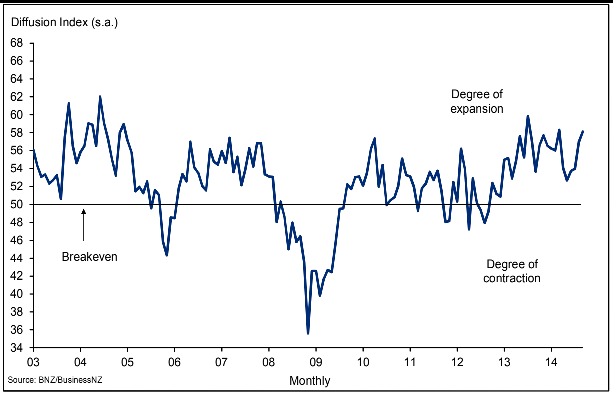
House Price Inflation and Sales

International (GDT) Dairy Auction – 16 October
The latest global dairy trade auction, with a price index rise of 1.4%, brought mainly a sense of hope that prices have stopped falling. But make no mistake – the dairy market is weak. Prices have inched off the bottom after a very aggressive sell off and partly supported by reduced volumes on offer. Prices are down 46% on a year ago. There remains clear downside risk to Fonterra's current $5.30 per kilogram of milksolids forecast for the 2014/15 season. That forecast is predicated on a strong bounce in world prices – something we struggle to see given current indicators. These risks are not new but we formally account for them today by revising down our own milk price view to $4.90 from $5.30 previously. Even $4.90 requires some bounce in prices over coming months and/or a further material fall in the NZD. Combined with some increase in milk production this season, the milk price reduction from last season's $8.40 equates to a slump in dairy revenue over the coming 12-18 months in the order of $5.5 billion or the equivalent of about 2.3% of GDP. See our lead article for more details.

ANZ Job Ads (Sep) – 16 October
Job advertising did far better in September than we thought it would. It expanded a further 2.4% in seasonally adjusted terms, following an upwardly revised gain of 1.7% in August. It's one of many labour market indicators with a fair deal of momentum, seemingly not put off by the uncertainty regarding September's General Election outcome.

BNZ Manufacturing PMI (Sep) – 16 October
The seasonally adjusted PMI for September was 58.1 (a PMI reading above 50.0 indicates that manufacturing is generally expanding; below 50.0 that it is declining). This was 1.1 points higher than August, and the second highest result recorded so far for 2014. Its employment component got to 56.0, which is way above the 50.3 average since 2002.

Performance of Manufacturing Index



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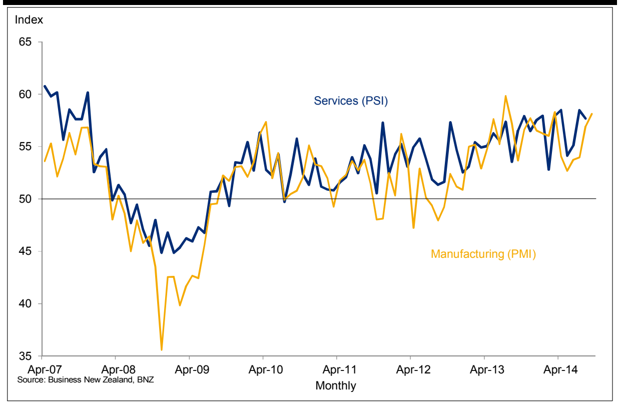
NZ Upcoming Data/Events

ANZ-RM Consumer Confidence (Oct) – 20 October
This will be one of the very earliest insights we'll get into the response to September's election result. Not that we need to see a big bounce in this consumer confidence measure. In (the early part of) September it increased to 127.7 – suggesting upside to our consumption growth forecasts.

BNZ Services PSI (Sep) – 21 October
Can the Performance of Services Index (PSI) match the upbeat tone of September's PMI, with its 58.1? If so, then it would be further evidence that the economy continues to expand at an above-normal pace (even with a Parliamentary election in mind).

PSI and PMI - Seasonally Adjusted



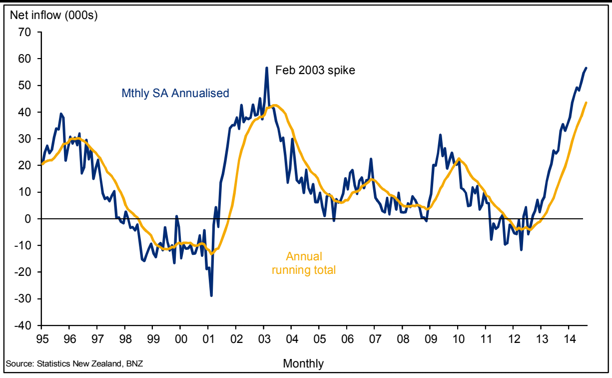
RBNZ Workshop (Macro-Prudential) – 22 October
The formal title of this workshop is "The Interaction of Monetary and Macroprudential Policy". While this is a closed shop affair, watch out for anything that might leak from it. The Bank is obviously still thinking things through (having probably felt rushed into implementing its macro-prudential agenda, given the re-stretch in house prices, while mortgage rates remained suppressed). There are still loose ends, in our view.

From a practical point of view, the workshop would seem to tie in with announcements the Reserve Bank looks likely to make around macro-prudential policy in its next Financial Stability Report, due 12 November.

One of the criteria the Bank set out in removing the LVR restriction was that house price inflation moderates to be in line with household income growth. Recent statistics suggest we're closing in on this. However, the more recent news is that the housing market is perking up again, post the election, with most mortgage rates little different to where they were before the RBNZ increased its OCR 100bps. It's an area to watch.

Int'l Travel and Migration (Sep) – 22 October
Net inward migration has burgeoned this year, albeit arguably less inflationary than it tends to be, given the foreign workers being dragged in directly for the local (re)construction boom, and, most recently, the prevalence of students in the arrivals gains. Still, we're talking about a net addition to the population base like we haven't seen in decades. And one that risks continuing for quite a while, instead of falling away soon in the manner many, including the RBNZ, and we, anticipate.

Net Immigration

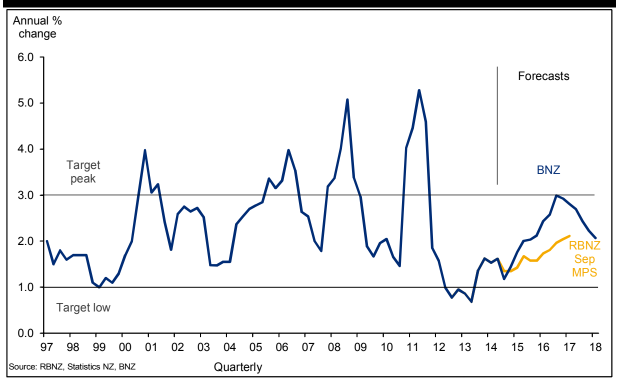


As for the short-term visitor arrivals for September, these looked to have consolidated recent strong gains, with a relatively steady result compared to year-ago levels.

Credit Card Billings (Sep) – 22 October
We've also encountered the disappointment in September's electronic card transactions. So it will just be a matter of seeing what this credit card component serves up.

CPI (Q3) – 23 October
We are forecasting a 0.5% increase for the Q3 CPI. This would reduce its annual reading to 1.2%, from 1.6%. We believe the risk is for more of a slowdown, meaning 0.4% for the quarter and 1.1% y/y.

Consumer Price Index



Importantly, the RBNZ is picking 0.7% for Q3 and 1.3% as an annual. The Bank has been regularly surprised on the downside recently and is already beginning to question its rising inflation projections. Another surprise, however modest, will add to its concerns and, of itself, increase the likelihood that the next rate hike will be later rather than sooner.

Merchandise Trade (Sep) – 24 October
August's exports held up better than we thought, as primary industry volumes shone through. However, we believe price weakness, notably for dairy exports, will begin to dominate in September's figures, which is why we're picking a 2% fall in export values compared to their year-ago level. For imports we're looking for a flat annual result. This would determine a monthly merchandise trade deficit of $297m, compared to a shortfall of $221m for September last year.

LVR Ratio (Sep) – 24 October
Banks have been relatively conservative in their proportion of high-LVR residential lending, represented by the 6.5% result for August. We don't suspect it will be much different for September and should thus remain well below the 10.0% ceiling first imposed by the RBNZ on 1 October 2013. The real question is how much longer the LVR restriction will remain in place, at least in its present form.

Holiday (Labour Day) – 27 October

OCR Review – 30 October
There is reason for the Reserve Bank to sound less optimistic at this Review. The global news, and market volatility, alone have injected some caution, which the lower NZ dollar has only partially accounted for. And while, in terms of local growth, there is still much to offset the poor outlook for dairy income this season, the lack of evidence of inflation will feed the Bank's inclination to pause for a while longer. Still, we doubt the RBNZ will throw the towel in completely, indeed will likely retain its commentary about expecting to hike the OCR a bit further before all is said and done. There is still the chance the economy keeps barrelling on quite strongly enough to cause inflation to rise (and not just in the housing market).

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Quarterly Forecasts

Forecasts as at 16 October 2014

Key Economic Forecasts

Quarterly % change unless otherwise specified

	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
GDP (production s.a.)	0.6	1.1	1.0	1.0	0.7	1.0	1.0	0.8	0.9	0.5
Retail trade (real s.a.)	1.4	0.3	1.3	0.8	1.2	0.3	1.0	0.8	0.8	0.7
Current account (ytd, % GDP)	-3.7	-3.9	-3.3	-2.7	-2.5	-2.6	-3.4	-4.3	-4.7	-5.0
CPI	0.2	0.9	0.1	0.3	0.3	0.5	0.3	0.7	0.5	0.5
Employment	0.5	1.2	1.1	0.9	0.4	0.8	0.9	0.9	0.8	0.6
Unemployment rate %	6.4	6.1	6.0	5.9	5.6	5.4	5.4	5.3	5.3	5.4
Avg hourly earnings (ann %)	2.4	2.6	3.2	2.9	3.1	2.9	3.3	3.5	3.7	3.7
Trading partner GDP (ann %)	3.3	3.7	4.1	4.2	4.0	4.0	4.0	4.0	4.2	4.2

Forecasts

Interest Rates

Historical data - qtr average		Government Stock			Swaps			US Rates		Spread
Forecast data - end quarter	Cash	90 Day Bank Bills	5 Year	10 Year	2 Year	5 Year	10 Year	Libor 3 month	US 10 yr	NZ-US Ten year
2013 Dec	2.50	2.70	4.15	4.70	3.60	4.50	5.10	0.25	2.75	1.95
2014 Mar	2.55	2.95	4.10	4.60	3.90	4.55	5.10	0.25	2.75	1.85
Jun	3.00	3.40	4.15	4.40	4.05	4.50	4.90	0.25	2.60	1.80
Sep	3.40	3.70	4.05	4.25	4.10	4.45	4.70	0.25	2.55	1.70
Forecasts										
Dec	3.50	3.75	4.10	4.50	4.30	4.55	4.95	0.25	2.75	1.75
2015 Mar	3.75	4.05	4.20	4.55	4.55	4.70	5.05	0.45	3.00	1.55
Jun	4.00	4.30	4.40	4.80	4.65	4.95	5.35	0.70	3.25	1.55
Sep	4.25	4.50	4.80	5.15	4.85	5.25	5.60	0.95	3.50	1.65
Dec	4.50	4.75	4.95	5.30	5.00	5.40	5.75	1.20	3.50	1.80
2016 Mar	4.75	5.00	5.00	5.35	5.00	5.45	5.80	1.70	3.50	1.85
Jun	4.75	5.00	4.95	5.35	4.75	5.30	5.70	1.95	3.50	1.85
Sep	4.75	5.00	4.70	5.15	4.60	5.10	5.50	2.35	3.25	1.90
Dec	4.75	5.00	4.40	4.85	4.40	4.80	5.25	2.70	3.00	1.85
2017 Mar	4.50	4.75	4.55	5.00	4.40	4.90	5.35	3.20	3.25	1.75

Exchange Rates (End Period)

	USD Forecasts					NZD Forecasts					
	EUR/USD	USD/JPY	GBP/USD	NZD/USD	AUD/USD	NZD/EUR	NZD/JPY	NZD/GBP	NZD/USD	NZD/AUD	TWI
Current	1.2827	106.10	1.5991	0.7987	0.8796	0.6227	84.74	0.4995	0.7987	0.9080	77.3
Dec-14	1.2600	108.00	1.6200	0.7840	0.8800	0.6222	84.67	0.4840	0.7840	0.8909	76.3
Mar-15	1.2500	110.00	1.5800	0.7645	0.8600	0.6116	84.10	0.4839	0.7645	0.8890	75.3
Jun-15	1.2400	112.00	1.5300	0.7540	0.8480	0.6081	84.45	0.4928	0.7540	0.8892	75.0
Sep-15	1.2200	115.00	1.5000	0.7449	0.8380	0.6106	85.66	0.4966	0.7449	0.8889	75.0
Dec-15	1.2000	117.00	1.5000	0.7300	0.8200	0.6083	85.41	0.4867	0.7300	0.8902	74.4
Mar-16	1.2000	120.00	1.4900	0.7100	0.8000	0.5917	85.20	0.4765	0.7100	0.8875	73.1
Jun-16	1.2000	120.00	1.4800	0.6900	0.8000	0.5750	82.80	0.4662	0.6900	0.8625	71.1
Sep-16	1.2000	120.00	1.5000	0.6800	0.8000	0.5667	81.60	0.4533	0.6800	0.8500	70.0
Dec-16	1.2000	120.00	1.5000	0.6800	0.8000	0.5667	81.60	0.4533	0.6800	0.8500	70.0
Mar-17	1.2000	120.00	1.5000	0.6800	0.8000	0.5667	81.60	0.4533	0.6800	0.8500	70.0
TWI Weights						0.2532	0.1510	0.0633	0.3123	0.2202	

Source for all tables: Statistics NZ, EcoWin, Bloomberg, Reuters, RBNZ, BNZ

Forecasts

Forecasts as at 16 October 2014	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016
GDP - annual average % change										
Private Consumption	2.6	3.4	3.2	3.0	1.0	2.9	3.3	3.0	3.3	1.5
Government Consumption	-1.0	1.7	1.9	0.7	0.6	-1.5	0.9	2.6	0.5	0.9
Total Investment	7.3	10.6	7.6	5.8	1.4	7.1	9.7	8.2	6.6	2.3
Stocks - ppts cont'n to growth	-0.5	0.3	0.5	-0.5	0.0	0.2	-0.1	0.6	-0.5	-0.1
GNE	2.1	4.7	4.0	2.8	1.0	2.9	4.0	4.2	3.2	1.5
Exports	3.0	0.4	2.4	3.9	4.0	1.7	1.3	3.2	2.9	4.0
Imports	1.3	8.0	4.8	3.0	2.6	2.7	6.3	6.0	3.0	2.9
Real Expenditure GDP	2.7	2.4	3.4	3.1	1.3	2.6	2.5	3.4	3.3	1.8
GDP (production)	**2.3**	**3.2**	**3.7**	**3.1**	**1.3**	**2.5**	**2.8**	**3.8**	**3.4**	**1.8**
GDP - annual % change (q/q)	*2.1*	*3.8*	*3.6*	*2.6*	*0.7*	*2.4*	*3.2*	*3.8*	*3.0*	*0.9*
Output Gap (ann avg, % dev)	-0.2	0.3	1.1	1.6	0.5	-0.3	0.2	0.8	1.6	0.9
Household Savings (gross, % disp. income)	2.6	3.8	3.5	3.6	5.2					
Nominal Expenditure GDP - $bn	211.4	225.6	233.5	246.2	256.0	209.7	220.7	232.5	242.6	254.3
Prices and Employment - annual % change										
CPI	0.9	1.5	1.8	2.4	2.8	0.9	1.6	1.4	2.1	2.9
Employment	0.4	3.8	3.1	2.2	1.0	0.4	3.0	3.1	2.7	1.3
Unemployment Rate %	6.2	5.9	5.3	5.5	5.9	6.8	6.0	5.4	5.4	5.9
Wages - ahote	2.3	2.9	3.5	3.9	3.0	2.6	3.2	3.3	3.9	3.2
Productivity (ann av %)	1.8	0.4	0.1	0.2	-0.1	2.3	0.6	0.1	0.2	0.1
Unit Labour Costs (ann av %)	1.1	2.3	2.4	3.5	3.5	0.8	1.9	2.6	3.3	3.5
External Balance										
Current Account - $bn	-8.0	-6.0	-10.1	-11.2	-8.6	-8.5	-7.4	-8.0	-11.8	-9.5
Current Account - % of GDP	-3.8	-2.7	-4.3	-4.6	-3.3	-4.1	-3.3	-3.4	-4.9	-3.7
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.1	-1.3	0.1	0.5	0.8					
Net Core Crown Debt (excl NZS Fund Assets)	26.3	26.2	26.8	26.5	25.5					
Bond Programme - $bn	14.0	8.0	8.0	7.0	7.0					
Bond Programme - % of GDP	6.6	3.5	3.3	2.8	2.6					
Financial Variables (1)										
NZD/USD	0.83	0.85	0.76	0.71	0.67	0.83	0.82	0.78	0.73	0.68
USD/JPY	95	102	110	120	120	84	103	108	117	120
EUR/USD	1.30	1.38	1.25	1.20	1.20	1.31	1.37	1.26	1.20	1.20
NZD/AUD	0.80	0.94	0.89	1.20	0.86	0.79	0.92	0.89	0.89	0.85
NZD/GBP	0.55	0.51	0.48	0.48	0.45	0.52	0.50	0.48	0.49	0.45
NZD/EUR	0.64	0.62	0.61	0.59	0.56	0.63	0.60	0.62	0.61	0.57
NZD/YEN	78.5	87.1	84.1	85.2	80.4	69.5	85.1	84.7	85.4	81.6
TWI	76.1	79.7	75.3	73.1	69.3	74.3	77.5	76.3	74.4	70.0
Overnight Cash Rate (end qtr)	2.50	2.75	3.75	4.75	4.50	2.50	2.50	3.50	4.50	4.75
90-day Bank Bill Rate	2.65	3.06	4.05	5.00	4.75	2.66	2.74	3.75	4.75	5.00
5-year Govt Bond	3.09	4.11	4.20	5.00	4.55	2.93	4.23	4.09	4.94	4.39
10-year Govt Bond	3.72	4.58	4.55	5.37	5.02	3.54	4.76	4.50	5.30	4.83
2-year Swap	2.92	3.97	4.55	5.00	4.40	2.70	3.79	4.30	5.00	4.40
5-year Swap	3.47	4.57	4.70	5.43	4.90	3.12	4.65	4.54	5.39	4.80
US 10-year Bonds	1.94	2.71	3.00	3.50	3.25	1.70	2.89	2.75	3.50	3.00
NZ-US 10-year Spread	1.78	1.87	1.55	1.87	1.77	1.84	1.87	1.75	1.80	1.83

(1) *Average for the last month in the quarter*

Source for all tables: Statistics NZ, EcoWin, Bloomberg, Reuters, RBNZ, NZ Treasury, BNZ

Calendar

	Forecast	Median	Last
Friday 17 October			
Euro, GDP Estimates, ESA 2010 Basis			
US, Housing Starts, September		1008k	956k
US, Yellen Speaks, Inequality			
US, Mich Cons Confidence, October 1st est		84.0	84.6
Monday 20 October			
NZ, BNZ PSI (Services), September			57.9
Germ, PPI, September y/y			-0.8%
Tuesday 21 October			
NZ, External Migration, September s.a.			+ 4,710
Aus, RBA Minutes, 7 Oct Meeting			
China, GDP, Q3 y/y		+ 7.2%	+ 7.5%
China, Retail Sales, September y/y		+ 11.7%	+ 11.9%
China, Industrial Production, September y/y		+ 7.5%	+ 6.9%
US, Existing Home Sales, September			5.05m
Wednesday 22 October			
NZ, RBNZ Workshop, Macro-prudential			
Aus, CPI, Q3			+ 0.5%
Jpn, Merchandise Trade Balance, September			-¥950b
UK, BOE Minutes, 9 September Meeting			
US, CPI ex food/energy, September y/y			+ 1.7%
Thursday 23 October			
NZ, CPI, Q3	+ 0.5%		+ 0.3%
China, PMI (HSBC), October 1st est		49.9	50.2
Euro, PMI/PSI, October 1st est			50.3
Euro, Consumer Confidence, Oct 1st estimate			-11.4
UK, Retail Sales vol., October			+ 0.4%
US, Markit PMI, September 1st est			57.5
US, Leading Indicator, September			+ 0.2%
Friday 24 October			
NZ, Merchandise Trade, September	-$297m		-$472m
China, Leading Index (Conference Board), September			+ 0.7%
China, Property Prices, September			
UK, GDP, Q1 1st est			+ 0.9%
US, New Home Sales, September			504k
Monday 27 October			
NZ, Holiday, Labour Day			
Germ, IFO Index, October			104.7
US, Pending Home Sales, September			-1.0%
Tuesday 28 October			
Jpn, Retail Sales, September y/y			+ 1.2%
US, Shiller Home Price Index, August			+ 6.7%
US, Consumer Confidence, October			86.0
US, Durables Orders, September			-18.2%
Wednesday 29 October			
Jpn, Industrial Production, September 1st est			-1.9%
US, FOMC Policy Announcement, QE pace			$15b
Thursday 30 October			
NZ, OCR Review			
Aus, Terms of Trade, Q3			-4.9%

	Last
Thursday 30 October...*continued*	
Euro, Economic Confidence, October	99.9
Germ, CPI, Oct y/y 1st est	+ 0.8%
US, GDP, Q3 1st est	+ 4.6%
Friday 31 October	
NZ, Building Consents, September (res, #)	flat
NZ, Household Credit, September y/y	+ 5.0%
NZ, ANZ Business Survey, October	+ 13.4
Aus, Private Sector Credit, September	+ 0.4%
Aus, Producer Prices, Q3 y/y	+ 2.3%
Jpn, CPI, September y/y	+ 3.3%
Jpn, BOJ Policy Announcement, Money Base Target	¥270T
Euro, Unemployment Rate, September	11.5%
US, Chicago PMI, October	60.5
US, Personal Spending, September	+ 0.5%
Saturday 1 November	
China, PMI (NBS), October	51.1
Monday 3 November	
Aus, Building Approvals, September	+ 3.0%
Aus, RPData-Rismark HPI, October	+ 0.1%
China, Non-manufacturing PMI, October	54.0
UK, CIPS Manuf Survey, October	51.6
US, ISM Manufacturing, October	56.6
US, Construction Spending, September	-0.8%
Tuesday 4 November	
NZ, ANZ Comdty Prices ($NZ), October	+ 1.6%
Aus, Retail Trade, September	+ 0.1%
Aus, International Trade, September	-$787m
Aus, RBA Policy Announcement	2.50%
Euro, PPI, September y/y	-1.4%
US, International Trade, September	-$40.1b
US, Factory Orders, September	-10.1%
Wednesday 5 November	
NZ, LCI Priv Ord Wages, Q3 y/y	+ 1.8%
NZ, HLFS Employment, Q3	+ 0.4%
China, Services PMI (HSBC), October	53.5
Euro, Retail Sales, September	+ 1.4%
UK, CIPS Services, October	58.7
US, ADP Employment, October	+ 213k
US, ISM Non-Manuf, October	58.6
Thursday 6 November	
NZ, QVNZ House Prices, October	+ 6.4%
Aus, Employment, October	-30k
Euro, ECB Policy Announcement	0.05%
Germ, Factory Orders, September	-5.7%
UK, Industrial Production, September	flat
UK, BOE Policy Announcement	0.50%
Friday 7 November	
Aus, Qtly Monetary Statement	
Germ, Industrial Production, September	-4.0%
US, Non-Farm Payrolls, October	+ 248k

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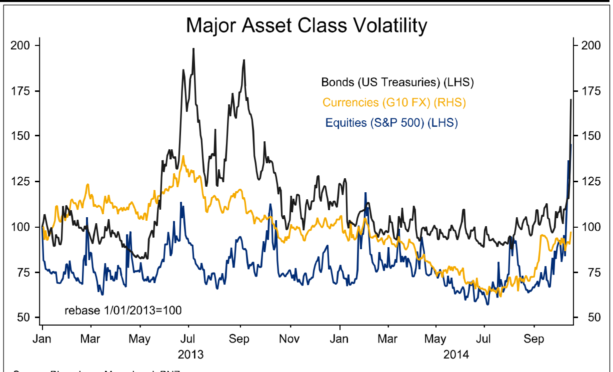
17 October 2014

USD: Heads I Win, Tails You Lose

- The current market panic about global growth may end up pushing back Fed Funds Rate hikes…
- …but even in that scenario, we pick the USD to rise.
- Apart from the extremely unlikely scenario that the US economy secularly stumbles, a collapse in volatility would be the biggest threat to our USD view.

The 34bp plunge in US bond yields on Wednesday (and subsequent near-complete reversal) will rank amongst the most memorable market moves in recent times. There was carnage across other financial markets, with the USD losing just shy of 2.0% against the JPY and EUR in the space of two hours, and the S&P 500 staring at a 3.0% single-day loss before regaining its composure. The big winner on the day was volatility.

Volatility Across Asset Classes Has Stormed Higher



Source: Bloomberg, Macrobond, BNZ

For us, the violent moves signified a capitulation of hastily-built USD long positions, which the market had piled into only recently. The market has pushed out its expectations for a Fed Funds Rate (FFR) hike, with the September 2015 meeting now only attracting 36% odds for the first hike, down from over 70% two months ago.

We have long-held a relatively aggressive bullish USD view, which has only recently borne fruit after a frustrating first half to 2014. The third quarter of this year saw the broad Bloomberg Dollar Spot Index gain 7.1%, having been stagnant for the first half of the year. Given investor panic of the recent days, have we lost any conviction on this core view?

In short, not really. We see three possible scenarios for the Fed policy outlook here, and only the least likely of those would be associated with USD weakness. The three scenarios are:

1) The Fed remains on course to begin FFR hikes in Q2 2015 (our current forecast).
2) The Fed delays FFR hikes due to global uncertainty.
3) The Fed delays FFR hikes due to US-specific issues.

Scenario 1: We Stay The Course

US policymakers have already been on the wires, trying to alleviate the panic in markets. US Treasury Secretary Jack Lew declared that the US core economic growth path is "very strong", while Dallas Fed President Richard Fisher noted that it is "way too premature" to be talking about another round of quantitative easing. (To us, the fact that the question was asked is simply another sign of investor hysteria).

Most curiously, just after the worst of the market meltdown, headlines broke that Fed Chair Janet Yellen was said to have expressed confidence in the US economic expansion, despite foreign risks. The news reports cited unnamed sources, who attended a meeting with Yellen on the fringes of IMF/World Bank meetings last weekend. The highly convenient timing of those headlines were met with deep suspicion, and prompted speculation the Fed itself wanted to reassure markets.

Reasonable people can disagree on whether the Fed can stay the course and begin hiking rates in mid-2015. We would agree that there is more downside risk for our Q2 call than upside. But *if* the Fed does remain on track, then the USD should continue to make steady gains.

We assign a probably of 60% to this scenario.

Scenario 2: Global Malaise Forces FFR Hike Delays

This is the investment theme du jour: that waning growth and inflation impetus in China, Japan, and (most starkly) Europe will cause the FOMC to push out the start of policy tightening. Should the weakness elsewhere engender a slowdown in US growth and/or inflation (as might well be the case), this might be an eminently reasonable decision.

But provided that the US economy continues to trundle along, printing monthly employment gains of 200k+, the

USD should remain in demand as a relative value trade. Certainly it will remain appealing against the EUR, since the euro-zone seems the most likely candidate to provide the biggest drag on global growth.

We assign a probability of 35% to this scenario

One important exception (which isn't captured by that probability) is if this push-back in rate hike expectations is accompanied by a collapse in volatility, back to the doldrums observed in Q2. Lower-for-longer US rates and subdued volatility create fertile ground for USD-funded carry trades, the phenomenon which pushed NZD and AUD well above fair value metrics earlier this year. Clearly, this would be USD negative.

Scenario 3: US-specific Slowdown Delays Rate Hikes

This is the least likely of our three scenarios, and the tone of US data would support that assessment. Simply put, it would require an extraordinary and unexpected meltdown in the US economy to create conditions where the USD is less desirable than, say, the JPY or the EUR.

In fact, the blow to investor confidence in this scenario might even provide some support to the USD, in the form of a flight to safety.

We assign a probability of 5% to this scenario.

Scenario 1 vs 2: In Which Does The USD Gain More?

For us, this is the more interesting question. Intuitively, it would have to be the first scenario, where a growing US interest rate advantage attracts capital inflow. But one can easily make the argument that the USD would strengthen just as strongly in an environment where it is the only attractive option, against the unappealing prospects of other major currencies.

If we had to pick a side, we would back the first scenario to deliver the greater USD gains, but only just. It almost comes down to which currency pair drives the next leg higher in the USD.

Should US interest rates push higher, this should attract the Japanese investor base, who are being encouraged to look abroad for yield. This would see an eventual USD/JPY break of ¥110, toward our 2016 target of ¥120. Given the tendency of JPY to lead weakness against the USD in recent months, we can see this fuelling a broader rally in USD.

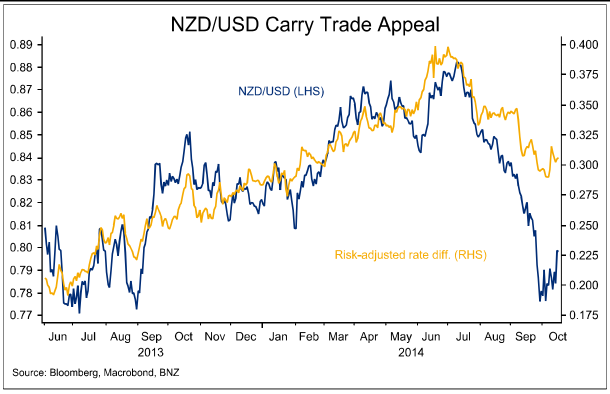
On the other hand, a continued slide in euro-zone inflation expectations, and the inability of policymakers to stave off the risk of deflation (perhaps the ECB's hands remain tied by German opposition to sovereign QE), would see EUR move rapidly toward 1.20. Again, this should inspire broader buying interest in the USD.

And What About The NZD?

Clearly, we still back our core USD bullish view, even with quite different outlooks for US monetary policy, which translates into a relatively bearish NZD view. We retain an end-2014 target of 0.78, and an end-2015 target of 0.73.

The real spanner in the works would be if volatility did drop back to the levels that would encourage carry-trade investors. The risk-reward has become significantly less compelling since the 0.88 peak in NZD/USD, as FX volatility pushed off its lows. We doubt the RBNZ would be best pleased to see that speculative element of the market returning to NZ's shores (and may perhaps be quite nervous about the rather public short position now on their books).

Volatility Has Eroded NZD's Carry Trade Appeal



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October 2014
Quarterly Strategic Outlook

> Global growth increasingly uneven
> US momentum builds, Eurozone falters
> The causes and consequences of low inflation
> A flatter more volatile return profile for shares
> Spotlight on high yield bonds
> The NZ dollar adjusts at last

AMP CAPITAL

Executive summary

The September quarter was another positive one for our diversified fund investors. Bonds produced healthy returns with low global inflation, policy easing from the European Central Bank and ongoing Ukraine concerns keeping yields well bid. Share markets inched higher over the quarter assisted by solid earnings both here and offshore. New Zealand shares outperformed global shares with no change of government removing the uncertainty risk premium. However, shares have entered a flatter and more volatile return profile recently. This is something we expect to persist given uncertainty over the path of US rate tightening and ongoing geopolitical tensions. The New Zealand dollar was sharply lower over the quarter on another large decline in dairy prices plus intervention in the currency market by the Reserve Bank of New Zealand. Improved global sentiment on the US dollar also contributed to the weaker New Zealand dollar over the quarter.

At the macro level, global growth continues to improve but that recovery is proving to be increasingly uneven. Despite a weak start to the year, the US appears to have the greatest upward growth momentum of the major developed economies. This is leading to divergence in growth prospects between the US and the Eurozone and Japan, which will soon progress to a divergence in monetary policy settings. The US Federal Reserve is likely to begin tightening monetary conditions from the middle of next year while the European Central Bank and the Bank of Japan are expected to continue easing for some time. We continue to expect global growth will be stronger in 2014 than 2013. With growth in emerging markets expected to be unchanged from last year, global growth is forecast to come in at 3.3% this year. We expect further recovery over the next two years with growth of 3.7% expected in 2015 and 3.9% in 2016.

The lack of inflation is the key theme in the investment landscape at the moment. Against this backdrop, we think rising interest rates in the US will be accompanied by higher growth, which ultimately will be positive for shares given valuations are not overextended. We expect rising US rates to modestly pull up global long term yields, lift the US dollar higher, and by implication push the New Zealand dollar lower. Consequently we remain underweight the New Zealand dollar, at benchmark for equities, underweight bonds and overweight cash across our diversified portfolios.

Our views in summary

Asset class	Near term view	Medium term view	Bias
Global equities	Expect share prices to move sideways following recent gains with risk of underperformance if bond yields rise faster than expected	At current bond yields, valuations are reasonable for this asset class over the medium term.	Neutral
Emerging market equities	EM shares should continue to push higher but concerns over Fed tightening and specific country risks will mean the path will be volatile.	EM valuations remain in attractive territory but this is partly due to different sector compositions. Also, the direction of returns will depend on developed markets which are looking fully priced.	Neutral
Australasian equities	Will broadly track global equities. Strong domestic economy expected to underpin NZ shares despite elevated valuations. Improving earnings growth will support Australia shares.	Australasian shares are reasonably priced given current financial and economic conditions. Expect NZ to modestly underperform Australia over the medium term.	Neutral
Listed property & infrastructure	Should track global equities in the near term with risk of underperformance if interest rates rise faster than expected	Sectors look fully priced. From an absolute perspective, the low real yield environment should provide support over the medium term	Neutral
Commodities	The outlook for commodities looks flat until global growth approaches potential. Geopolitical and weather risk will add volatility in the meantime.	Cyclical lows in a number of commodities suggests upside risk in the medium term.	Neutral
Global bonds	Expect bond yields to be higher on a 12 month horizon as the US commences rate hikes next year. A modest US tightening cycle together with rates on hold in Europe and Japan should limit the rise in bond yields.	Expect low returns given low government bond yields. High NZD carry providing some offset to low market yields.	Underweight
New Zealand bonds	Expect long-end and returns to take lead from US but relatively lower non-US yields could raise demand for NZ bonds.	As with global bonds, low yields foreshadow low returns but a 4% big figure on the 10-year at least looks more reasonable than 3% last year.	Underweight
Cash	Cash rates on hold for the time being but expected to move above 4% next year	Expect similar returns from cash and bonds over the medium term but cash has lower risk of capital loss.	Overweight
Foreign currency	The NZ dollar has had a meaningful adjustment but expect more modest declines in the near-term with the high carry providing some support.	The NZ dollar remains overvalued against the majors in a long term context.	Overweight

Global economic outlook

Global growth continues to improve but that recovery is proving to be increasingly uneven.

Despite a weak start to the year, the US appears to have the greatest upward growth momentum of the major developed economies. This is leading to divergence in growth prospects between the US and the Eurozone and Japan.

With that will soon come a divergence in monetary policy settings. The US Federal Reserve (the Fed) is likely to begin tightening monetary conditions from the middle of next year while the European Central Bank (ECB) and the Bank of Japan (BoJ) are expected to continue easing for some time. That will support further upside in the US dollar over time.

Among the emerging economies the outlook is similarly mixed. The growth outlook in India is improving, while Brazil faces considerable headwinds. Russia is also slowing amid the uncertainty created by political tension with Ukraine and sanctions imposed by other key trading partners. The outlook for China remains a continued managed slowdown.

We continue to expect global growth will be stronger in 2014 than 2013. Global growth is forecast to come in at 3.3% this year, unchanged from our last report in July although the composition of that growth is different. We expect further recovery over the next two years with growth of 3.7% expected in 2015 and 3.9% in 2016.

Global GDP growth

Calendar year annual average % change

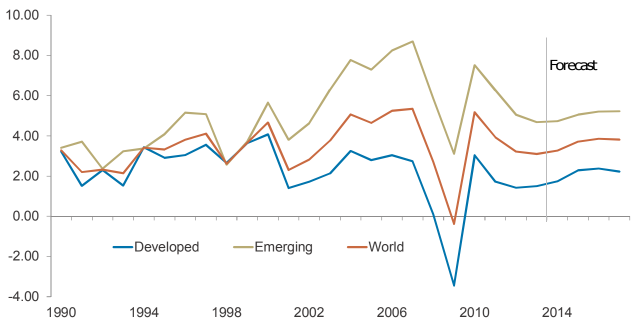
	2013	2014	2015	2016
United States	2.2	2.2	3.0	2.9
Euro area	-0.5	0.8	1.2	1.6
Japan	1.5	1.0	0.9	1.1
UK	1.8	3.2	3.4	2.9
Canada	2.0	2.5	2.8	2.7
Australia	2.4	3.0	3.2	3.1
New Zealand	2.4	3.7	2.9	2.5
Developed*	1.5	1.7	2.3	2.4
China	7.7	7.4	7.2	6.9
India	4.4	5.7	6.4	7.0
Brazil	2.3	0.6	1.2	2.5
Mexico	1.1	2.8	3.8	4.2
Russia	1.3	0.5	2.2	2.5
Indonesia	5.8	5.3	5.5	5.8
South Africa	1.9	2.2	2.8	3.5
Emerging*	4.7	4.7	5.1	5.2
World*	3.1	3.3	3.7	3.9

* Averages are Purchasing Power Parity (PPP) weighted average

Source: IMF and AMP Capital

Global GDP growth

Annual average % change



Source: IMF and AMP Capital

Eurozone: secular stagnation?

Growth in the Eurozone disappointed market expectations over the last few quarters. No growth in France along with contraction in the other two of the regions, three largest economies, Germany and Italy, held the Eurozone to a nil growth result for the June quarter.

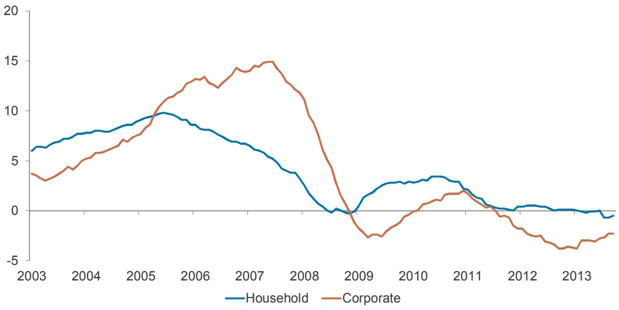
We are less worried about the result from Germany than we are for the other two. The June result appears to be a payback from the strong good-weather-related March quarter result. But we continue to be concerned about the outlook for both France and Italy (the serial non-reformers). Both appear likely to remain a drag on overall Eurozone growth.

It's not all bad however. The growth environment is improving in countries that have undertaken meaningful reform. Spain, Portugal and Ireland are all looking better. Cyclical improvement in the residential property market in some countries is also helping, although that is not by itself a recipe for sustained economic growth.

The Eurozone's economic challenges are well understood. With a fixed exchange rate, internal Eurozone adjustment has come through the labour market. To date, growth has been insufficiently strong to make a significant dent in that spare capacity. The Eurozone unemployment rate peaked at 12.0% but remains worrisomely high at 11.5%.

The resultant low inflation outcomes, and more recently a meaningful decline in inflation expectations, have led to further easing from the ECB. The ECB eased in June with a cut to interest rates including the introduction of a negative deposit rate and the announcement of a Targeted Long Term Refinancing Operation (TLTRO). This was followed in September by further interest rate cuts and the announcement of a programme to purchase private sector asset-backed securities.

Eurozone credit growth
Annual % change



Source: ECB

The September easing followed an important speech from Mario Draghi at the annual economic symposium at Jackson Hole, Wyoming. In his speech he called for a greater role for fiscal policy and structural reform alongside monetary policy to help fix what ails the Eurozone economy.

With respect to fiscal policy, he acknowledged that levels of government spending and taxation in the Eurozone are already amongst the highest in the world and that it would be self-defeating to break the rules of the Stability and Growth Pact. However, Draghi believes the existing flexibility within the rules could be used to better address the weak recovery and to make room for the cost of needed structural reform. With respect to structural reform, he singled the labour market out for special mention.

We couldn't agree more. Without significant structural reform and growth enhancing fiscal policies, the Eurozone is destined for a period of very low growth and below target inflation.

We don't expect the Eurozone to slip back into recession. Highly stimulatory monetary conditions, lower fiscal drag, a lower exchange rate and a gradual recovery in global growth should see recession avoided. That said, rising sanctions against Russia as a result of the situation in Ukraine carry economic costs at home.

We see annual average growth of 0.8% for the Eurozone in calendar year 2014, rising to 1.1% in 2015. Not quite secular stagnation, but perilously close. This growth outlook appears to us to suggest more action from the ECB is likely. But the only option left is purchases of public sector assets. We acknowledge that step still presents legal challenges for the central bank.

Japan: low expectations delivered?

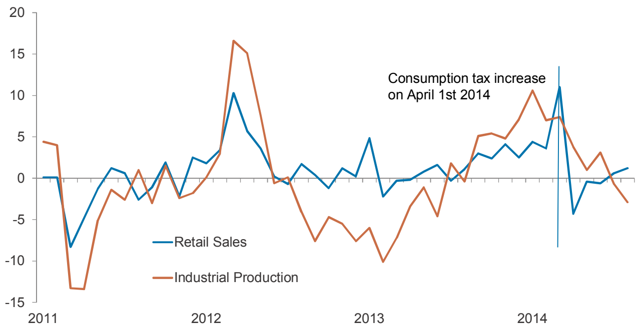
Another economy we expected to underperform consensus expectations this year is Japan. You will recall from previous editions that we have been less than optimistic about the prospects of 'Abenomics' in achieving a meaningful lift in potential growth.

Easier monetary and fiscal policy, the first two parts of the economic revitalisation plan, did achieve a temporary boost to growth and inflation that enabled the government to press ahead with an increase in the consumption tax on April 1 this year. That has made a small contribution towards fiscal sustainability but there is still considerable work to do. Indeed, a second increase in the consumption tax is scheduled for October 2015.

The tax increase created some volatility in the data with 'rush demand' supporting a strong GDP result in the first quarter of this year (annualised 6.1%), only for the economy to give back more than that (annualised -7.1%) in the second quarter. Consumption pulled back sharply but so too did business investment reflecting businesses' uncertainty about the outlook. Net exports were strong but that was due to a sharp drop in imports. Inventories also rose in the quarter which will be a drag on growth in the second half of the year.

Our view has been the resultant drop in real incomes from the tax increase would be a drag on household spending for some time and see growth disappoint market and, importantly, BoJ expectations.

Japan activity data
Annual % change



Source: Bloomberg

We expect a return to growth in the third quarter of this year which will give the government confidence to confirm the second round of the consumption tax increase for later next year. But while we expect the weaker currency to help net exports, we see growth returning to trend of around an annualised 1.0% from the end of the year.

To date we have seen nothing in the way of structural reform to lead us to revise up our expectations of potential GDP growth. Corporate tax reductions will not by themselves lead to higher investment and improved productivity. That requires business to want to invest, which in turn requires meaningful labour market reform and deregulation.

The BoJ has become gradually more cautious about the growth outlook over the last few months. Since August they have revised down their expectations for exports, housing investment and industrial production. They have also had to drop the oft-used line that payback from the rush demand is in line with expectations.

The BoJ releases its next outlook report at the end of October. At that time they will have to revise down their GDP growth forecast for the 2014 fiscal year which currently sits at 1.0%. More interesting will be their expectations for inflation. At the moment their objective of 2% inflation next year seems unrealistic.

BoJ Governor Haruhiko Kuroda has stated the Bank won't hesitate to adjust policy settings if the inflation target looks unattainable. The only question is what they would do. As a percentage of GDP the BoJ already has the most aggressive asset purchase programme. Increasing that may not make much difference. We'd expect to see more targeted programmes to encourage credit growth.

Growth in the US strengthening

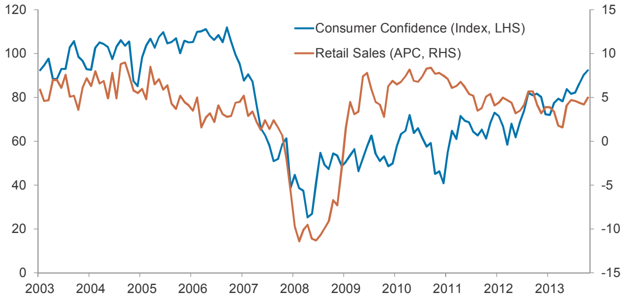
US GDP rebounded strongly in the second quarter following the weakness in the first three months of the year.

Annualised GDP growth came in at 4.6% in the three months to June, a sharp recovery from the contraction of -2.1% in the March quarter. This confirmed the weak March quarter was an aberration.

That said, the detail of the June quarter result was somewhat weaker than the headline suggested. It was the substantial turnaround in inventories that accounted for around half the improvement between the two quarters. Real final sales came in at 3.2% (annualised) with that growth broad based, including 2.5% for consumption. Net exports was the major negative contribution, detracting -0.3% over the quarter.

Most activity data is pointing towards more solid growth in the second half of the year. We expect growth of around 3.0% annualised for the second half of the year and into 2015 on the back of further solid gains in employment (which will help underpin consumption), strong business investment and less drag from net exports. That will deliver calendar year annual average growth of 2.2%, unchanged from 2013. Growth then rises to 3.0% in calendar 2015.

US consumer confidence and retail sales



Source: The Conference Board and Dept of Commerce

In this strengthening growth environment, the Fed has continued to trim their asset purchase programme. Monthly asset purchases dropped to $15 billion from the beginning of October. The Federal Open Market Committee (FOMC) expects to announce the end of the programme at its October meeting.

That's the easy part of the US monetary policy outlook. The critical question is how long it will be before we see interest rate increases. At the September FOMC meeting the Committee retained its forward guidance indicating there would be a "considerable time" between the end of asset purchases and the first interest rate hike. But at some point there will be less than a considerable time before interest rates need to rise. Indeed, there are already two dissenters to the use of that wording on the Committee.

The FOMC's decision to start hiking rates will be dependent on the full range of data about the state of the labour market, inflation and the economy in general. The Committee continues to believe there is a significant underutilisation of labour resources, although it remains debatable just how much slack there is. That being the case, and as we've said before, wages data will be critical. Furthermore they will be comfortable with their assessment that the recent spike higher in key measures of core inflation was 'noise' with their annual rates of increase now slowing.

All that said, with growth improving, inflation and wage growth off their lows and the rate of unemployment continuing to fall, it's only a matter of time before interest rates will need to rise. We remain comfortable with our view that the first hike in the Fed funds rate will come in the middle of 2015. Risks around that timing are evenly balanced.

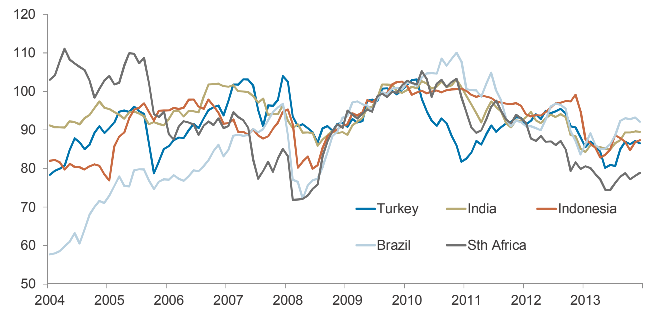
That means the recent trend higher in the US dollar (USD) appears likely to continue. A clear divergence in economic performance between the US and the other key developed economies will become a divergence in monetary policy as the US moves to tightening and the ECB and the BoJ maintain policy easing. That will be positive for the USD. And of course a stronger USD is good for countries like New Zealand which would prefer a lower currency.

The emerging economies

What a difference a year makes. A year has now passed since the first 'taper tantrums'. At that point a group of economies, including India, Indonesia, Turkey, South Africa and Brazil, were dubbed the 'fragile five'. Exchange rate adjustment has seen an improvement in competitiveness in all of these countries, although we acknowledge vulnerabilities remain.

Real effective exchange rates

Index



Source: Bank for International Settlements

Of those five, the improvement in fortunes has been most marked in India and Turkey. Significant external adjustment has seen cyclical improvement in growth for both economies along with an improvement in their external deficits. Both countries have a high proportion of manufactured exports so improved competitiveness is meaningful compared with commodity exporting countries such as Brazil where the adjustment process is more problematic.

India has made the most meaningful progress. Not only is growth improving, but inflation is off its highs and both the current account and fiscal deficits are improving. The current account deficit improved from 4.2% of GDP in the 2013 fiscal year (FY) to 1.7% in FY 2014. We expect GDP growth to head back to around potential of 7.0% per annum over time.

The change in government has also boosted sentiment. Prime Minister Modi was elected on a platform of economic revival. At the same time, the new Governor of the Reserve Bank of India has strengthened the monetary policy framework which is helpful for price stability.

The outlook is not nearly so positive in Brazil. The year on year (yoy) growth rate is now negative thanks to a weaker than expected June quarter and downward revisions to prior quarters. The weakness in the economy was broad based with only the agriculture sector posting a small positive contribution. The most worrying aspect of the result was the 5.3% quarter on quarter (qoq) decline in investment.

There are limited prospects of recovery in sight, at least until the uncertainty of the Presidential election is gone. At this point we expect a modest recovery emerging driven by the agriculture and industrial sectors. That will see annual average GDP growth up from just a little over zero this year to around 1.0% in 2015.

Russia also remains fragile although for a different reason. Ongoing tensions in Ukraine have resulted in sanctions being put in place against Russia. However, the most significant impact on growth has been the sharp drop in investment activity as a result of uncertainty about the political and economic outlook.

The economy has managed to stay out of recession thus far. There was a sharp contraction in growth in the first quarter of the year but the June quarter saw low growth as the decline in investment stabilised somewhat. Annual growth came in at 0.8% yoy in June.

Looking ahead we think the investment uncertainty has probably increased again as new sanctions continue to be put in place. Also consumption, which had been holding up well, is now slowing as the lower currency has led to higher inflation and eroded real incomes.

Our forecast of annual average growth of 0.5% this year carries downside risk. We expect growth to pick up next year to 2.2%.

China: risks shift to the downside (again)

I can't recall a time when the risks around our China view have changed so often in such a short period of time. Activity data started the year weak, although GDP growth surprised on the upside in the first quarter. That weakness spurred a number of policy 'tweaks' to support growth including fiscal (infrastructure) stimulus and targeted reductions in the required reserve ratio (RRR).

Activity indicators turned up during the second quarter and GDP growth averaged 7.4% in the first half of the year. The authorities took the foot off the stimulus pedal as growth looked like stepping up again, only for August activity data to surprise on the downside with industrial production, fixed asset investment and retail sales all coming in weaker than expected in the month.

Negative monthly growth in industrial production and the decline in the annual rate of growth from 9.0% yoy in July to 6.9% in August is the most disconcerting element. This appears to be related to the slowdown in the property market with annual rates of growth in the production of steel, cement, glass and household appliances all lower over the month. In that respect a slowdown is perhaps not surprising. However, to put a monthly decline in industrial production into perspective, there were only three such months during the Global Financial Crisis (GFC) and only one other since, so this is an unusual occurrence.

China industrial production

Annual % change

Source: TBC

Manufacturing, infrastructure and property fixed asset investment all slowed over the month with the overall rate of year-to-date growth slowing from 17.0% for the period from January to July to 16.5% in the period from January to August. On the back of stimulus, infrastructure had been holding up well, helping moderate the overall decline in fixed asset investment. Further infrastructure stimulus appears likely should activity continue to surprise to the downside.

After GDP growth surprised on the upside in the first half of the year, the risks to growth have again moved to the downside. We are still forecasting 7.4% growth for this year. While that looks optimistic now in light of the recent low industrial production result, export growth is running stronger than we thought it would at this point in the year so expect net exports to offset some of the weakness elsewhere.

Further policy tweaks can be expected to support growth and ensure a GDP growth outcome for the year that is close to the official target of 7.5%. The continued slide in the property market remains the biggest risk to the outlook and could lead to a sharper downturn. We believe the property market needs direct intervention in the form of relaxing restrictions on purchases and a speeding up of the hukou reforms.

Given the likely 'miss' of this year's growth target we expect the government will look to lower the target next year to closer to 7.0%.

Australia and New Zealand

Australia's growth moderated in the June quarter with GDP expanding 0.5%. This compares to the robust 1.1% quarterly growth in the March quarter. The growth slowdown in the June quarter largely reflects a deteriorating trade performance with sluggish exports (-0.8% qoq) and a sharp lift in imports (3.7%). The resulting dramatic negative contribution from net exports (-0.9% GDP contribution) is likely to be only a transitory negative as exports should rebound.

The Australian economy is still confronting a challenging transition after the mining investment boom. Yet there are some positive signs in the June quarter, with strong housing construction (2.3%) and a bounce in real business investment (1.1%). Consumer spending was resilient at 0.5% considering real retail sales were weak, while the household saving ratio remains high at 9.4%.

Australia's real economic growth for the past year now stands at 3.1%. We expect growth to remain at around that level. Solid growth in residential investment and consumption should continue to underpin growth. Weaker commodity prices remain a key risk to growth, although the exchange rate is providing some buffer.

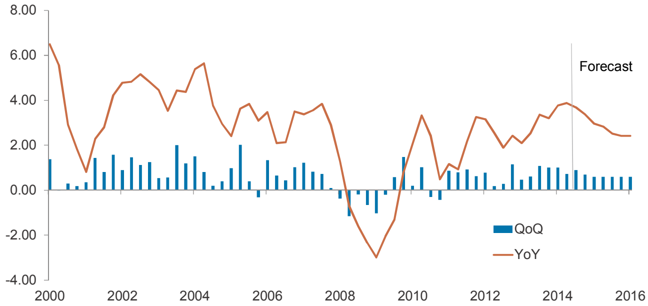
The annual rate of inflation has been rising, but that reflects high inflation in the earlier part of the twelve month period. The quarterly numbers are on a downward trajectory. We expect the Reserve Bank of Australia will remain comfortable with record low interest rates for some time yet.

New Zealand is past the peak in the growth cycle, although growth is expected to remain ahead of its non-inflationary potential. In particular, dairy prices are now 48% below their peak of early this year. We expect that to lead to a decline in the terms of trade of around 12% over the next couple of of quarters. The perennially high New Zealand dollar (NZD) and fiscal contraction continue to detract from the growth story along with higher interest rates.

While the peak in growth is now behind us, we expect growth will still remain relatively strong. Further improvements in the labour market will continue to underpin solid consumption growth, while strong business confidence will continue to support business investment. Residential construction investment will continue to contribute to the ongoing expansion. We expect annual average growth of 3.7% in calendar year 2014. Growth is then expected to drop back to 2.7% in calendar year 2015.

New Zealand GDP

% change



Source: Statistics NZ and AMP Capital

Inflation has been lower than expected and, in the words of the Reserve Bank of New Zealand, the exchange rate is still unsustainably and unjustifiably high. That has led to a pause in the rate hike cycle at the current level of 3.5%.

Given our expectation of growth remaining ahead of potential, we believe we will still need higher interest rates with the tightening cycle resuming in March next year. In addition, lower than expected commodity prices will do a greater part of the job of containing domestic economic activity so we have lowered our forecast peak in the interest rate cycle. We now see the Official Cash Rate peaking at 4.5%, lower than the 5.25% we were expecting previously. That forecast remains highly dependent on the future trajectory of dairy prices and the exchange

Bevan Graham
Chief Economist

Asset strategy

A flatter and more volatile return profile

The September quarter was another positive one for our diversified fund investors. Bonds produced healthy returns with low global inflation, policy easing from the European Central Bank and ongoing Ukraine concerns keeping yields well bid.

Share markets inched higher over the quarter, assisted by solid earnings both here and offshore and easier global monetary policy thanks to the absence of inflation. New Zealand shares outperformed global shares over the quarter, with no change of government removing the uncertainty risk premium.

However, shares have entered a flatter and more volatile return profile recently. This is something we expect to persist, given uncertainty over the path of US rate tightening, concerns over China's property slowdown and ongoing geopolitical tensions.

The New Zealand dollar was sharply lower over the quarter on another large drop in dairy prices plus an extended pause in the interest rate cycle and intervention in the currency market by the Reserve Bank of New Zealand. Improved global sentiment on the US dollar also contributed to the weaker New Zealand dollar over the quarter.

The decline in export dairy prices is part of a broader decline in commodity prices globally, which is due to both softer demand and rising supply. Commodities have now given back all of their gains from earlier in the year.

Asset class	Quarter	Year
Cash & fixed interest		
NZ Cash	0.9%	3.1%
NZ Bonds	1.8%	5.2%
Global Treasuries	2.4%	8.8%
Global Aggregate	2.0%	8.7%
Domestic and global shares		
NZ Shares	2.2%	11.0%
Australian Shares (AUD)	-0.6%	5.9%
Global Shares (local)	0.8%	15.3%
Emerging Markets (local)	0.6%	8.3%
Real assets		
NZ Listed Property	3.0%	12.3%
Global Property	-1.1%	15.2%
Global Infrastructure	1.1%	21.0%
Commodities	-11.0%	-3.9%
Currency		
NZD (MSCI weights)	-8.3%	-3.8%
NZD / AUD	-4.0%	0.0%

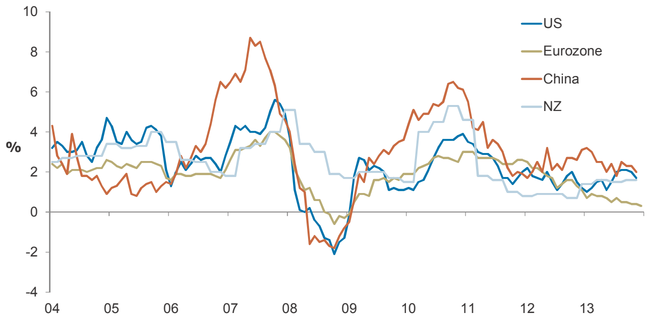
Low inflation ≠ low risk

The lack of inflation is the key theme in the investment landscape at the moment. With global growth moving to a lower path post the global financial crisis, one wonders where inflation is going to come from outside of a supply shock from some adverse geopolitical or weather related event.

In the US, inflation is still running below the target of 2% despite six years of zero interest rates and US$3.5 trillion of asset purchases. Inflation in Europe is even more restrained, consistently below 1%, which is forcing the ECB to become more unrestrained. Inflation in China is only 2% while property prices are actually deflating around 1% a month at the moment.

The recent slump in global commodity prices is expected to dampen inflation further in the near term.

Headline inflation



Source: Bloomberg, AMP Capital

One would think inflation will eventually come from the US labour market, but even here competition from globalisation and technology could keep wage growth in check even when labour market slack is used up. In New Zealand's case, relatively open borders means globalisation takes the form of higher net migration, adding to labour supply. Some regions such as Europe and Japan are looking to spur inflation through currency depreciation, but this just exports disinflation to the rest of the world.

It is way too early to write inflation's obituary but it seems the low inflation backdrop and its consequences of low global rates and rising asset prices will be around for some time yet.

This expectation raises the risk of excess leverage, asset price bubbles and the eventual messy unwind. Equity market valuations are not irrationally exuberant but other indicators such as bank lending, broker margin debt and high yield credit spreads bear close monitoring (box 1).

Low global rates do not mean zero rates and the US Fed and the Bank of England are on course to lift rates from the floor next year, which could cause some instability in markets, even if the ECB and BoJ are on hold as far as the eye can see.

In view of the low inflation backdrop, we think rising interest rates in the US and UK will be accompanied by higher growth, which ultimately will be positive for shares given valuations are not overextended. We expect rising US rates to modestly pull up US and global long term yields, lift the US dollar higher, and by implication push the New Zealand dollar lower.

Consequently we remain underweight the New Zealand dollar, at benchmark for equities, underweight bonds and overweight cash across our diversified portfolios.

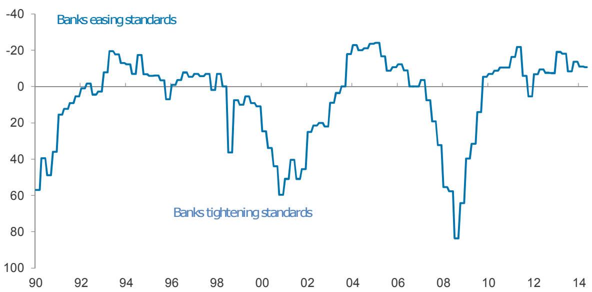
Box 1: US bear market indicators

Valuations are not always effective or timely indicators of equity bear markets. Other indicators worth monitoring include bank lending, broker margin debt, profit margins and high yield credit spreads. Over recent decades, a turn in these indicators has flagged turning points in share markets. While not exhaustive or infallible, these indicators may provide signs of stress not captured by equity valuations.

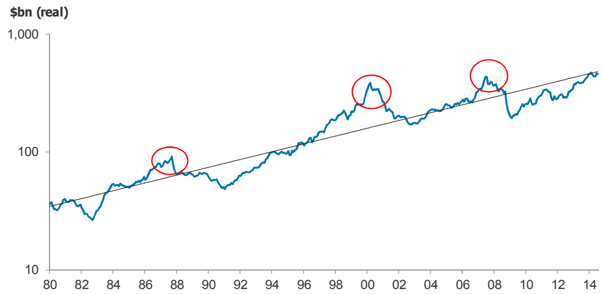
For example, bank lending and broker margin debt may flag asset positions that is backed by borrowing is at risk. A turn in profit margins could give an early indication earnings are topping out because costs are rising faster than prices or, alternatively, companies are cutting prices to maintain volumes in the face of slowing demand. Finally, extremely narrow high yield spreads can be a useful indicator of financial market excesses.

None of these indicators are flashing red. Banks are still easing lending standards. Broker margin debt is at trend, not above. Non-financial profit margins are off their peak but are still high at 10%. US high yield spreads are low but above the 3.0% extreme level we saw before the last two equity bear markets.

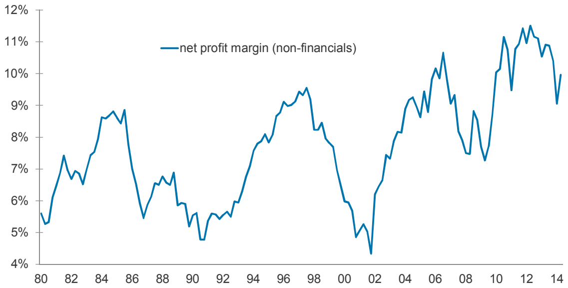
US bank lending



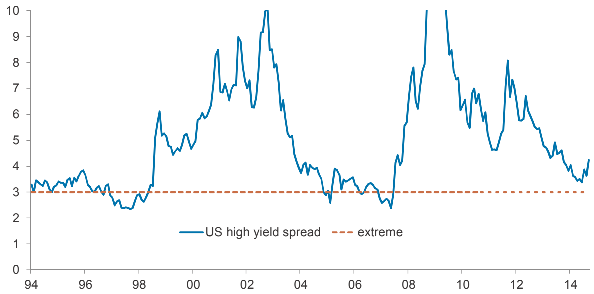
US broker margin debt



US profit margins



US high yield spreads



Source: Bloomberg, BEA, Barclays, AMP Capital

Equities

Earnings results helped keep equity markets in positive territory over the quarter (or at least limited the losses). US earnings per share were 9% higher than the same period last year with all sectors reporting positive growth. US reported sales were 4% higher, in line with nominal GDP growth. Earnings outside of the US were a bit softer. Eurozone earnings per share were up 9% but sales were down 3%. In Japan earnings were down 6% whereas sales are up 2%.

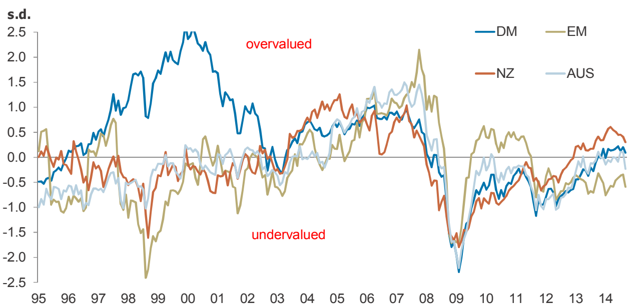
The recent reporting season in both New Zealand and Australia lived up to expectations. Domestic companies reported full year earnings per share growth of around 5%, backing up the double-digit growth in 2013. Profit growth from Australian companies was a touch higher, closer to 7%, but earnings across the Tasman are a year behind the recovery in New Zealand (see our recent Investment Insight for more detail).

Overall, we think New Zealand and Australian shares are earning their keep in our portfolios. Both markets are managing to grow earnings without resorting to quantitative easing, zero cash rates or significant currency depreciation.

Higher valuations in New Zealand could result in lower relative returns versus Australia going forward. But New Zealand shares are not materially overvalued, less than half a standard deviation on our composite model.

We believe equity market valuations in general are not onerous. Our composite model that averages prices to dividends, earnings, sales and book values show there are no significant valuation outliers in the equity asset classes at present.

Equity market valuations

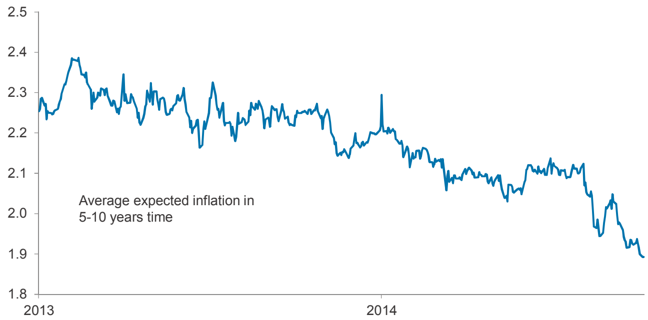


Source: Bloomberg, AMP Capital

Bonds

A key driver of the bond market over the last quarter was additional easing by the ECB. Though Eurozone inflation has tracked below 1% for a year, which is understandable given low growth and excess spare capacity, the ECB have taken some comfort from medium term expectations for inflation which has stayed above 2%. That is until recently.

Eurozone inflation expectations



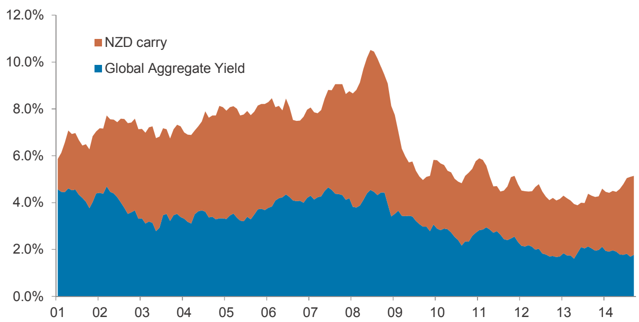
Source: Bloomberg, AMP Capital

This has forced the ECB to cut rates further as well as flag private sector asset purchases, which has seen Euro bond yields decline to new lows and pushed the euro currency lower.

Lower bond yields in Europe have contributed to a decline in global yields as investors seek out additional spread. The decline in treasury yields together with tighter credit spreads over the last year has seen the Barclays Global Aggregate yield move close to the previous low of 1.6% in 2013.

However, offsetting this from a New Zealand investor's perspective has been a 1% rise in the 'carry' as the RBNZ raised short term interest rates. Consequently, the global aggregate hedged running yield is back over 5% for the first time since 2012. Though the running yield has moved higher, the risk from short term capital loss has also risen given the lower bond yield.

Global aggregate bond index yield



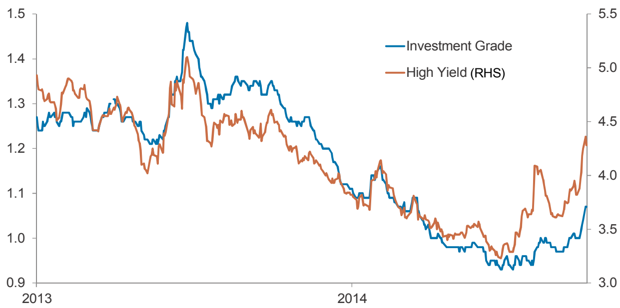
Source: Barclays, AMP Capital

Global yields should head higher as we get closer to rate hikes by the US Fed and Bank of England. Even so, gradual increases in cash rates should mean bond yield increases are also gradual. With tightening from the ECB and BoJ much further in the distance, the global search for yield should help forestall significant spikes in long term yields globally. Investors shouldn't expect global credit spreads to provide much, if any, protection against rising treasury yields given spreads are close to long term median levels.

As usual, we expect longer term domestic bond yields to take their lead from the US bond market. However, relatively lower non-US yields could raise demand for New Zealand bonds. Non-residents purchased a net $3.3 billion of New Zealand government bonds in July and August alone, taking their holdings to 66.9% of the total. The highest non-resident proportion is 77.6% in July 2008.

The high yield bond market was under the spotlight in the September quarter with US high yield spreads rising 1% from their June quarter low. We believe this is an extended retail investor position adjustment, not something more ominous. High yield bonds have seen large retail fund inflows over the last two years which at one point pushed spreads down to 3.23%, well below the 20 year median level of 4.60%. High yield inflows picked up, particularly following the Fed taper scare last year which saw money move out of emerging market bonds and into high yield. What we have seen over the last quarter is a part reversal of this retail flow.

US credit spreads



Source: Barclays, AMP Capital

At 1.05%, investment grade spreads are close to their longer term median level. To the extent that this is a guide, high yield spreads could see some further adjustment towards longer term averages. But we think healthy corporate profit growth and low default rates should prevent a massive blow out in spreads (to say over 6%) which are typically associated with recessions.

Note that our diversified portfolios have no dedicated exposure to high yield bonds. However, it is likely a significant adjustment in high yield spreads would have ramifications for investment grade bonds and equities as high yield bonds sit between these two in the capital structure.

Real assets

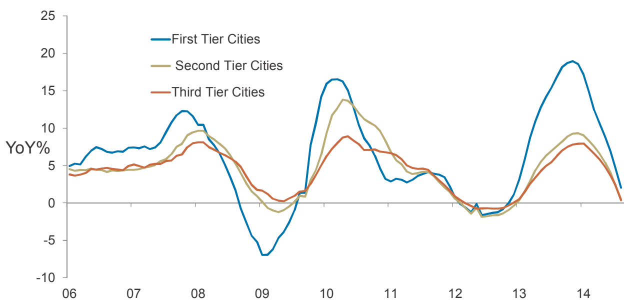
Returns from property and infrastructure assets were mixed over the September quarter. Global infrastructure finished the quarter 1% higher, whereas global property was 1% lower. Domestic listed property was the top performing real asset, rising 3.3% as lower domestic bond yields improved its relative yield spread.

Listed property and infrastructure stocks continue to trade above long term average price/book and price/dividend ratios, which is to be expected in a low yield environment. However, higher valuations suggest lower returns going forward, with a risk of underperformance versus the broader market if yields rise faster than expected.

Commodity prices came under pressure in the third quarter due to slowing demand growth in Europe and Asia, bumper grain harvests, improving oil supplies and the stronger USD.

China's property slowdown is a key source of concern, not just for energy and industrial commodity prices, but for Asian and global growth in general. China's residential property prices are falling a little over 1% per month at the moment. Price declines have also become widespread, with all but two of the 70 main cities declining in August, up from 35 cities in May. So far the cycle still looks like a 'typical' correction but a few more months of the same and that will come into question.

China new residential property prices



Source: Bloomberg, AMP Capital

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We expect the Chinese authorities to do more to constrain the property decline over coming months, to limit the spillover to the broader economy. These could take the form of further unwinding of home purchase restrictions, tax incentives for homebuyers and lower mortgage rates (which have been rising this year).

Oil prices declined to a two year low in September with Brent crude falling to $94 a barrel, down from a high of $115 in July. It looks like the market is pricing a low probability of Russia using energy as a political weapon in the rising sanction war with the West. This is understandable given Russia's economy and government rely heavily on energy revenues. But it does put a lot of faith that economic imperatives outweigh political ones, which is not the case everywhere and always.

New Zealand dollar

The NZD fell 8% over the September quarter on a MSCI weighted basis and was down 11% against the USD. It appears the meaningful decline in the NZD that we have been waiting for has commenced.

The NZD should go lower given the significant decline in dairy prices we have seen, plus the likelihood of US rate hikes next year, but another short sharp decline of this magnitude would probably require a global shock of some sort.

As Reserve Bank Governor Wheeler noted in a speech in September, the three previous large corrections in the trade weighted index (ie greater than 20% declines) from 'unjustified and unsustainable' levels in the late 1980s, 1990s and 2000s were assisted by the respective fallout from the 1987 share market crash, the 1997 Asian crisis and the 2008 global financial crisis.

By definition, a shock is not that easy to predict. Possible shocks include a cyclical global recession, bursting of an equity bubble, an oil price spike and a serious downturn in China's property market.

In brief, our views on each of these are:

> Global recession risk is low given low cyclical spending and low inflation.

> Global equity valuations are not extreme and, while we expect higher volatility, we do not anticipate a bear market.

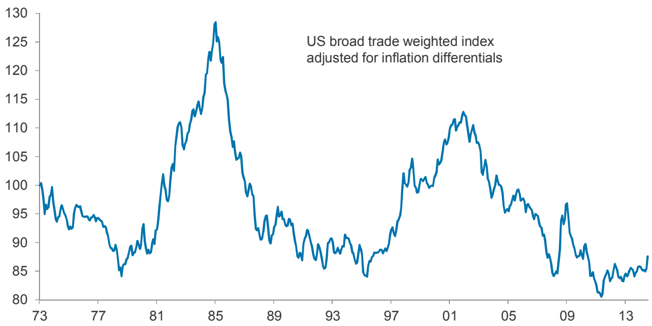
> Oil supplies are presently rising while demand is easing. Events in the Middle East and Russia do present a risk to energy prices but we ascribe a low probability to a major disruption.

> China property is also a risk, especially at the current rate of monthly declines, but the authorities have the means to smooth the fall.

As we've noted for some time, the start of US rate hikes by the Fed and the resultant stronger USD is a key reason the NZD should go lower.

The USD has risen strongly against a broad basket of currencies over the last few years but it remains below long term averages. While the USD is not especially cheap given the United States has to attract around US$400 billion a year to fund its current account deficit, there is room for further upside from here.

US real broad effective exchange rate



Source: US Federal Reserve, AMP Capital

In short, we believe the NZD remains overvalued against the major currencies on a long term basis. Sentiment has now clearly shifted and, while the high carry will continue to provide periods of support, we expect the currency to trend lower over time.

Keith Poore
Head of Investment Strategy

Contact us

If you would like to know more about how AMP Capital can help you, please visit ampcapital.co.nz or call us on 0800 400 499