



Eastern & Central  
**COMMUNITY  
TRUST**  
Helping fund a better community

**EXECUTIVE MEETING**  
**Monday 22<sup>nd</sup> December 2014**  
**Commencing at 3:00 p.m.**

**AGENDA PAPERS**

**AGENDA FOR A MEETING OF THE EXECUTIVE COMMITTEE OF THE  
EASTERN AND CENTRAL COMMUNITY TRUST INC.,  
TO BE HELD IN THE BOARD ROOM, 1<sup>ST</sup> FLOOR, WESTERMANS BUILDING  
102-104 RUSSELL STREET SOUTH, HASTINGS  
ON MONDAY 22<sup>ND</sup> DECEMBER 2014, COMMENCING AT 3.00 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 30<sup>th</sup> October 2014: [pages 3 to 7](#)
3. Matters Arising and Action Items: [pages 8 & 9](#)

**OPERATIONAL REPORTS TO THE EXECUTIVE**

4. General Manager's Report to the Committee: [pages 10-11](#)

**FINANCIAL INFORMATION PAPERS : [pages 12-49](#)**

5. Financial Report to 30<sup>th</sup> November 2014
6. Summarised Financial Position & Financial Performance YTD
7. Asset Allocation & Summarised Fund Manager reports

**INVESTMENT PORTFOLIO REPORT**

8. MCA May 2014 Monthly Report: [pages 50-87](#)

**EXECUTIVE DECISIONS**

9. Discretionary Donation Approvals and Declines: [pages 88-94](#)

**EXECUTIVE/BOARD INFORMATION PAPERS**

10. Staples Rodway Interim Review Report: [pages 95-98](#)
11. Hedging Reports : [pages 99-110](#)
12. BNZ Information/Market Commentary Papers, AMP October Quarterly Report: [pages 111-137](#)
13. General Business

<b>Report type:</b>	Secretarial and Board Administration Items
<b>Recommendation:</b>	The Executive considers the Minutes of the Executive Meeting held on 30 <sup>th</sup> October 2014 and approves as a true and accurate record of the meeting.
<b>Agenda item no:</b>	2
<b>Subject:</b>	Minutes of the Executive Committee Meeting held on 30 <sup>th</sup> October 2014
<b>Responsible for the report:</b>	General Manager

<b>Purpose of report:</b>	To record the recommendations of the Executive from the Executive Meeting, including decisions taken, and to approve the minutes from the 30 <sup>th</sup> October 2014 as a true an accurate record of the meeting.
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**MINUTES FOR THE MEETING OF THE EXECUTIVE COMMITTEE OF THE  
EASTERN AND CENTRAL COMMUNITY TRUST INC.,  
HELD IN THE MEETING ROOM, 1ST FLOOR, WESTERMAN'S BUILDING,  
102-104 RUSSELL STREET SOUTH, HASTINGS,  
ON THURSDAY 30 OCTOBER 2014, COMMENCING AT 1.30 PM.**

**PRESENT:**

Via Teleconference: Bruce Mills (Committee Chair), Anna Hansen and Stephen Kerr.

In Person: Jonathan Bell (General Manager), Bev Watkins (Donations Manager) and Kelie Jensen (Trust Secretary).

**SECRETARIAL AND BOARD ADMINISTRATION ITEMS**

**1. Apologies**

**1.1 RESOLUTION**

The Executive resolved that an apology from Kaye McAulay be accepted.

**B Mills/S Kerr**

**CARRIED**

**2. Draft Minutes of the Executive Committee Meeting held on 28 August 2014**

The Executive considered the draft minutes included in the Agenda Papers for approval.

**2.1 RESOLUTION**

The Executive resolved to approve the minutes of the meeting held on 28 August 2014 as a true and accurate record of the meeting.

**A Hansen/S Kerr**

**CARRIED**

**3. Matters Arising and Action Items**

Matters Arising:

- No matters arising.

Action Items:

- Explanation from Tony Hildyard re PIMCO losses – Tony is currently in Australia – J Bell will discuss with him in detail when he is back in the office and provide an explanation for the next meeting. **ACTION ITEM**

**FINANCIAL INFORMATION PAPERS**

**4. Financial Report to 30 September 2014**

The Trust's Financial Position and Financial Performance for September were included in the Agenda Papers.

- J Bell:
  - Generally speaking it was a good month with lots of green dots (ie: ahead of budget).
  - Salaries over budget, but this is due to three pay periods in the month, so will adjust in October.
  - Conference Fees will be adjusted into next financial year for the November report.
  - Value of shares has increased significantly since the beginning of the year.
  - Hedging to be discussed in detail under Agenda Item 9.
- YTD:

- Net assets as at end of September were \$155.3M.
- Investment returns YTD \$5.2M – ahead of budget by \$1.89M (variance includes \$1.37M hedging gain).
- Expenses YTD were \$.82M – under budget by \$59,350.
- Donations YTD are \$2.77M – under budget by \$345,767.
- Net position YTD is a surplus of \$1.54M – ahead of budget by \$2.15 million

## 5. Summarised Financial Position & Financial Performance YTD

The following was noted:

- Page 16
  - Why are Donation Expenses over budget? Mainly due to additional activity with swimming pools. Last year's budget of \$30K was under-utilised, so this year's budget was dropped to \$10K, but should have maintained \$30K.
  - Why are Brokerage Fees so high? Essentially under-budgeted when discussing budget with previous Trust Manager.– assumed the portfolios established last year would be stable this year but we gave them a lot more money to invest. Revisit Budget for next year. **ACTION ITEM**
  - Variances between Brokerage, Custodian and Fund Managers fees should even out and come in under budget in total.
  - Fund Managers are on a set fee, but their activity affects our costs as Brokerage Fees, so it is something to consider.
  - Mercer seminar suggested we take a detailed look at fees – shouldn't pay for generic info which is widely available on the web, but should pay well for info that relates to high risk areas. J Bell to talk to Michael about how to address this going forwards. **ACTION ITEM**
  - Donations under budget. J Bell believes this is due to a general trend of declining applications – at the CE meeting 6 out of the 11 trusts had seen a decline in applications over the past twelve months. Marketing will be a focus for 2015 – we need to get out in the community more.
- Page 19
- What is the process for Donation Creditors that are close to expiry – two next month? J Bell noted that the \$30K to the Nga Taonga Trust and many others on this list have since been paid out. Re process – Patricia monitors and we keep in regular contact with the applicant. Request for an extension is considered where appropriate. Page 22
  - What made up the \$4K staff credit card purchases – mostly Trustee meals and accommodation re the APM.

## 6. Asset Allocation & Summarised Fund Managers Reports

The following was noted:

- Page 25
  - Term Deposits are now spread across three banks. ANZ matures next week, so helpful to pay hedging, Phil Williams has almost \$5M and we expect some cash inflow from the fund managers as well.
- Page 34
  - Need to adjust the report to remove the \$3M additional advanced. **ACTION ITEM**

## INVESTMENT PORTFOLIO REPORT

## 7. MCA September 2014 Monthly Report

The following was noted:

- J Bell – update re custodial agreement – Forsyth Barr agreed to no fee increase; everything has been transferred over this morning and we can expect the new format from the January report onwards.
- Page 52:
  - FBEC has \$4.9M in cash – J Bell may take some of this for hedging payment as yield is only 4% and we can get 4.4% at least.
- Page 65:
  - Elevation Capital has \$2.1M in cash (Chris Swasbrook waiting for good opportunities that meet criteria) vs Forsyth Barr with \$158K in cash (Richard Burton essentially sitting on investments as is).
- Page 68:
  - Starting to see the increased income coming through compared to last year – blue bar on graph.
- Pages 69-70:
  - Seems Chris Swasbrook is still trying to maintain value of each investment around the \$850K mark. Why can't this limit increase as value of shares increases? J Bell to check with Michael Chamberlain on this, consider as an agenda item when discussing SIPO. **ACTION ITEM**

## **EXECUTIVE DECISIONS**

### **8. Discretionary Donations**

The Executive considered the discretionary donations included in the Agenda Papers.

#### **8.1 RESOLUTION**

The Executive resolved to endorse the staff recommendation to decline the application for a donation of \$2,400 from the Hastings Bridge Club Inc.

**A Hansen/B Mills  
CARRIED**

#### **8.2 RESOLUTION**

The Executive resolved to endorse the staff recommendation for a standard donation of \$2,000 to Hawke's Bay Ballet & Dance Inc.

**S Kerr/A Hansen  
CARRIED**

#### **8.3 RESOLUTION**

The Executive resolved to endorse the staff recommendation for a standard donation of \$4,000 to St Matthew's Church – Masterton.

**B Mills/A Hansen  
CARRIED**

## **EXECUTIVE / BOARD INFORMATION PAPERS**

### **9. Hedging Reports**

The following was noted:

- J Bell:
  - At September 30<sup>th</sup>, we were at a loss of approx \$1.8M due to the NZ\$ dropping considerably in response to "bad news" announcements (ISIS, Ebola, Russia etc) and the RBNZ intervening to sell NZ\$'s. Since then the NZ\$ had strengthened slightly (at 79.8 against the US\$ at October 22<sup>nd</sup>), but there is some volatility eg: a drop of 1.4 cents overnight in response to a

negative commentary from the US Federal Bank meant yesterday we were at a loss of approx \$1.3M, today that has increased to approx \$1.6M.

- Next week on rollover, we will have to pay approx \$1.5-1.6M, \$1.7M worst case scenario. Reminder that this is offset by a gain of \$1.3M earlier in the year.
- Apart from Rabobank (only European based bank), all banks are picking a fall in the NZ\$ to approx 0.74 - 0.75 by the end of 2015. More uncertainty though re what it will do over the next three to six months.
- Mercer seminar on Monday 20<sup>th</sup> October in Wellington – also general consensus that the NZ\$ is overvalued and will continue to fall.
- Michael Chamberlain believes the NZ\$ will strengthen over the next couple of months (to between 0.78 and 0.79) because i) there is always a rebound after a negative commentary from the Fed and ii) NZ\$ has strengthened over the Nov/Dec period nine out of the last ten years due to increase in NZ exports (mainly red meat).
- Recommendation is to remain at 50% hedged for the US\$, UKP and Euro and 0% hedged against the AUD and Yen – despite Michael's comment, J Bell confirmed we have no exposure to the Yen.
- After some discussion (ie: S Kerr understands the NZRB position is that the NZ\$ remains unsustainably high and will drop; A Hansen understands that the US\$ will strengthen in response to less attractive Euro and Japan zones), the Executive agreed that trying to forecast over the next three months is like crystal ball gazing. The logical option seems to be to go with the recommendation to maintain the status quo. We can then revisit in more detail at the January Trust meeting once the Christmas period has passed and we should have more stable commentary on where the NZ\$ is heading.
- J Bell to send an e-mail to Trustees to request approval of the recommendation.  
**ACTION ITEM.** Also noted that we will have to increase hedging cover in dollar terms to cover the increased value of shares.

#### **9.1 RESOLUTION**

The Executive resolved to make a recommendation to the Board that hedging remain at current levels – 50% against the US\$, UKP and Euro and nothing against the AUD and Yen.

**B Mills/A Hansen**  
**CARRIED**

#### **10. BNZ Information / Market Commentary Papers, AMP October Quarterly Report**

Nothing was noted.

### **GENERAL BUSINESS**

#### **11. General Business Items**

There was no general business discussed.

#### **12. Next Executive meeting will be held on Monday 22 December at 3pm.**

#### **13. Close of Executive Committee Meeting**

There being no further business, B Mills closed the meeting at 2.32pm.

<b>Report type:</b>	Secretarial and Board Administration Items
<b>Recommendation:</b>	The Executive receives the Action Plan from the previous Executive Meeting dated 30 <sup>th</sup> October 2014.
<b>Agenda item no:</b>	3
<b>Subject:</b>	Executive action items and matters arising progress report
<b>Responsible for the report:</b>	General Manager

<b>Purpose of report:</b>	To ensure that assigned tasks are monitored and completed.
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agenda

## **EXECUTIVE COMMITTEE ACTION PLAN**

**Meeting Date; 30<sup>th</sup> October 2014**

#	ACTION	WHO	WHEN	STATUS
1	Add amended Trustee exit interview strategy to plan and charter	Jonathan	At Governance Charter Review	Pending
2	Meet with Tony Hildyard (PIMCO) to discuss reports and distributions	Jonathan	Nov	Completed
3	Brokerage Fees – ensure budgeted correctly for 2015-16	Jonathan	May 2015	Pending
4	Fees for advice from Fund Managers – Discuss with MCA about re-striking fees for next year when contracts roll over	Jonathan	June 2015	Pending
5	PIMCO Report – Adjust the \$3 mill which was advanced	Jonathan	Nov	Completed
6	Elevation Capital – Discuss with Michael Chamberlain to consider mandate in SIPO	Jonathan	Nov	Pending
7	Hedging – email to Trustees requesting approval to Exec recommendation of hedging	Jonathan	Nov	Completed
8				

<b>Report type:</b>	Operational Reports to the Executive
<b>Recommendation:</b>	<p>The Executive receives and accepts</p> <ol style="list-style-type: none"> <li>1. The Financial Report for the period to 30th November 2014.</li> <li>2. The General Manager's report for the period to 18<sup>th</sup> December 2014.</li> </ol>
<b>Agenda item no:</b>	4
<b>Subject:</b>	General Manager's Report to the Executive Committee
<b>Responsible for the report:</b>	Jonathan Bell

<b>Purpose of report:</b>	To inform the Executive of progress and/or exceptions to the achievement of the 2014/15 Business Plan (inclusive of key Financial performance measures to 30th November), and other KPI's to 18 <sup>th</sup> December 2014. To flag any items of risk for the Executive and to flag any other items of significance to the Executive.
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## 1.0 Executive Summary

I have included some commentary in these agenda papers as explanation to some of the papers which follow. This also allows me to report to the Executive any matters of urgency and any significant variations to the 2014/15 Business Plan.

## 2.0 Financial Performance

### 1.1 Financial Position & Financial Performance

We continue to track well for the year, our expenses are under control and our realised income is slightly ahead of budget. Attached is the Dashboard for Month End November. Some key comments;

- Investment assets have increased by \$863k during the month. YTD they have increased by \$9.89 mill.
- Realised income is ahead of budget by \$549k YTD. The hedging rollover in early November has had a major impact on realised income.
- Total expenses YTD are \$83k lower than that budgeted or 7.1%.
  - Promotion expenses are well under budget.
  - Conference costs spent to 30<sup>th</sup> November have been taken out of current year expense and taken to prepaid 2015 conference costs.

1.2 Hedging Report – The hedging report as 8<sup>th</sup> of December is included. This shows a slight positive figure of \$22k. As at today the hedging is probably sitting at a similar figure or close to Neutral. I also include a paper from the BNZ with their predictions for 2015 for your information. Most pundits are predicting a fall in the NZ dollar against the USD next year, the question is when it will fall and by how much.

- 1.3 Self Managed Funds – Latest quotes and schedule attached FYI.
- 1.4 Asset Allocation Chart – NZ Bonds are below the tactical target of 27.5% however they are within the allowable range. All other assets on target.
- 1.5 PIMCO – I have developed a new graph to track the PIMCO funds which shows the change in the value of the units. By doing this it takes out the large humps when we transfer funds in, such as the \$3mill earlier this year. Andy Arcus and I met with Tony Hildyard to get a better understanding of the reporting and monies which we were receiving, here is an explanation;
- PIMCO make payments on a quarterly basis. Initially we were of the understanding that this comprised interest from the Bonds. This is not the case, it includes interest but also some of the projected “profit” from the Bonds. PIMCO are unable to separate the two out until the end of the year when an adjustment is made. This explains the drop in the value of the units in July. (Their year-end is June).
  - The reason for this method of distribution is to accommodate Australian tax law. By making payment no tax is paid. We didn’t go into any deep discussion of this area but accepted that this is what they did.
  - We also discussed where our investments sat and the rationale behind what they were doing. Very much sticking to mandate.
- 1.6 Esam Cushing FB – You will note their report has changed from previous months. This report is able to be tailored to whatever we want (within reason) to ensure that what we want to know is being reported, please note;
- Transaction summary, compliance report and commentary from Phil Williams are still there.
  - Withdrawals or deposits noted (was in Phil’s original summaries)
  - Accrued interest report (new)
  - Cash transactions noted in more detail
  - Maturity profile graph shows where gaps in the portfolio are for future years. Phil and I have been discussing the option of long term (5 year) term deposits for some of the maturing bonds in the next two years. This was also mentioned by Michael Chamberlain at the last Trust meeting. Phil will have a paper for the January meeting for Trustees to consider.
  - Portfolio appraisal (different format, easier to read)

### **3.0 RISK REGISTER**

There is nothing which has happened in the past month which needs to be brought to the attention of the Executive or the Trustees.

### **4.0 HR**
















Nothing to report.



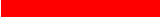
Jonathan Bell  
General Manager  
Dec 18th 2014

<b>Report type:</b>	Financial information papers
<b>Recommendation:</b>	The Executive notes the financial position, financial performance, asset allocation, and summarized fund manager reports as at 30 <sup>th</sup> November 2014.
<b>Agenda item no:</b>	5 to 7
<b>Subject:</b>	Investment Portfolio Report
<b>Responsible for the report:</b>	General Manager

<b>Purpose of report:</b>	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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# ECCT MONTHLY FINANCIAL REPORTING DASHBOARD

Month End	Comparison Current Month to Budget			Comparison YTD to Budget			Comments
	Nov 30th 2014			Nov 30th 2014			
	Actual (000's)	Budget (000's)		Actual (000's)	Budget (000's)		
Gross Realised Income	-\$ 1,333.000	\$ 0.444		\$ 5.291	\$ 4.742		Actual Realised income reduced due to hedging loss of \$1.3 mill
Expenses	\$ 0.115	\$ 0.139		\$ 1.071	\$ 1.154		Expenses under control
Net Realised Income	-\$ 1.335	\$ 0.305		\$ 4.220	\$ 3.588		Hedging rollover has impacted realised income, now 15% ahead of budget YTD
Donations	\$ 1.061	\$ 1.011		\$ 3.927	\$ 4.232		Slightly under budget for YTD
Profit/Loss	-\$ 2.396	-\$ 0.706		\$ 0.293	-\$ 0.644		Realised income ahead of budget by \$0.937 mill Net Income YTD (Unrealised + Realised) = \$9.15 mill
<b>Investments</b>							
	Oct 31st Value	Nov 30th Value		YTD Change (000's)		March 31st Value (000's)	
Equity F Barr	48,414	49,013		6,043		42,970	Refer to GM commentary
Equity E Capital	47,407	47,428		5,002		42,426	Refer to GM commentary
NZ Bonds	40,581	39,750		- 51		39,801	Refer to GM commentary
O'Seas Bonds	14,922	15,083		3,006		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
Complaints	Nil			Nil			

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

**GM Commentary**

<b>Income</b>	Realised income for the month was behind budget due to the loss of \$1.38mill on the hedging rollover. as at the 8th December our hedging position was positive \$22k. The volatility of the Global Dairy Trade (GDT) may have an impact on the \$NZ in coming weeks
<b>Expenses</b>	Overall expenses for the month were \$115k against a budget of \$139k, \$15k was lower Fund Manager fees for the month Conference Fees - Have been moved into next financial year.
<b>Donations</b>	Donations are slightly behind budget for YTD \$310k. Donations written back has increased to \$107 compared to last month of \$92k.
<b>Balance Sheet</b>	During the month we had minor gains with Forsyth Barr and Elevation Capital. PIMCO with a small gain. ECFB had a reduction as we withdrew \$1mill to help cover the BNZ Hedging payment.

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

	<b>Actual</b>	<b>Last Year</b>
<b><u>Trust Funds</u></b>		
Surplus Income	9,153,755	2,552,047
General Reserves	148,247,703	145,695,656
<b>Total Trust Funds</b>	<b>157,401,457</b>	<b>148,247,703</b>
<b><u>Current Assets</u></b>		
Petty Cash	38	49
Current	108,583	11,331
Imprest	1,206	1,316
Call	609,596	686,926
Conference Current 2015	14,272	-
Sundry Debtors	49,498	107,446
<b>Total Current Assets</b>	<b>783,193</b>	<b>807,068</b>
<b><u>Investment Assets</u></b>		
<b>New Zealand</b>		
Shares Forsyth Barr	49,013,012	42,970,359
Shares Elevation Capital	47,428,497	42,426,400
Hedging Contracts NZ	222,171	1,352,990
Cash Self Term Deposits	7,000,000	10,000,000
Bonds Self	39,750,294	39,801,233
Te Kete Putea Ltd Partnership	90,656	90,656
Private Equity Pioneer Capital	625,944	581,104
<b>Total New Zealand Investments</b>	<b>144,130,574</b>	<b>137,222,742</b>
<b>Overseas</b>		
Bonds Pimco	15,083,391	12,077,149
<b>Total Overseas Investments</b>	<b>15,083,391</b>	<b>12,077,149</b>
<b>Total Current and Investment Assets</b>	<b>159,997,157</b>	<b>150,106,959</b>
<b><u>Fixed Assets</u></b>		
Fixed Assets at Cost	197,169	187,553
Accumulated Depreciation	(164,521)	(152,535)
<b>Total Fixed Assets</b>	<b>32,648</b>	<b>35,018</b>
<b>Total Assets</b>	<b>160,029,805</b>	<b>150,141,977</b>
<b><u>Current Liabilities</u></b>		
Donation Creditors	2,454,150	1,658,050
Trade Creditors	74,516	71,118
Creditor Accruals	99,681	165,106
<b>Total Current Liabilities</b>	<b>2,628,347</b>	<b>1,894,274</b>
<b>Net Assets</b>	<b>157,401,457</b>	<b>148,247,703</b>

**Eastern & Central Community Trust**  
**Statement of Financial Performance**  
**For The 8 Periods Ending 30 November, 2014**



	Current Month			Year to date			Full year	
	Actual	Budget	Last Year	Actual	Budget	Last Year	Budget	Last Year
<b>Income</b>								
<b>Realised Investment Income</b>								
<b>New Zealand</b>								
Shares FBarr Interest	274	200	365	6,576	1,600	78,694	2,500	89,888
Shares FBarr Dividend	73,875	30,000	26,268	1,229,052	956,000	544,945	1,800,000	997,853
Shares FBarr Disposal gain/loss	-	-	-	-	-	1,090,932	-	1,090,932
Shares ECap Interest	2,291	200	1,641	37,222	1,600	126,261	2,500	153,169
Shares ECap Dividend	91,879	100,000	49,447	1,484,274	1,270,000	556,742	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	(1,779,366)	-	1,123,562	(129,445)	-	1,225,679	-	1,435,800
Bonds Self Interest	249,265	285,000	285,804	1,772,519	1,795,000	1,814,552	2,400,000	2,559,260
Bonds Self Disposal gain/loss	-	-	-	(2,079)	-	-	-	-
Cash Self Realised Income	28,888	29,000	37,637	284,188	238,000	325,668	320,000	473,206
Sundry Income	-	-	550	170	150	550	150	10,550
	(1,332,894)	444,400	1,525,274	4,682,478	4,262,350	5,830,477	6,325,150	7,899,915
<b>Overseas</b>								
Shares SSGA Dividend	-	-	-	7,823	-	-	-	-
Shares SSGA Disposal gain/loss	-	-	-	-	-	20,289,471	-	3,237,081
Bonds Vngd Disposal gain/loss	-	-	-	-	-	913,054	-	(225,112)
Bonds Pimco Interest	-	-	-	600,756	480,000	88,086	720,000	236,669
Property Au Disposal gain/loss	-	-	-	-	-	(212,238)	-	140,442
	-	-	-	608,579	480,000	21,078,373	720,000	3,389,079
<b>Total Realised Income</b>	(1,332,894)	444,400	1,525,274	5,291,057	4,742,350	26,908,850	7,045,150	11,288,994
<b>Unrealised Investment Income</b>								
<b>New Zealand</b>								
Shares FBarr change in Currency	567,975	-	448,470	3,179,836	-	(849,368)	-	(3,315,316)
Shares FBarr change in Value	-	-	77,598	1,849,276	-	893,999	-	1,766,424
Shares ECap change in Currency	(928,715)	-	207,954	2,010,899	-	(666,780)	-	(2,743,883)
Shares ECap change in Value	908,950	-	(369,296)	1,885,383	-	1,307,512	-	1,654,536
Property NZ change in Value	-	-	-	-	-	16,864	-	(0)
Hedging change in Value	2,112,658	-	(1,487,584)	(1,130,819)	-	(391,582)	-	1,578,350
Bonds Self change in Interest	-	-	(72,442)	445,525	-	(33,286)	-	52,038
Bonds Self change in Value	(80,446)	-	(144,533)	233,095	-	(770,036)	-	(1,217,663)
	2,580,422	-	(1,339,834)	8,473,196	-	(492,677)	-	(2,225,516)

**Eastern & Central Community Trust**  
**Statement of Financial Performance**  
**For The 8 Periods Ending 30 November, 2014**



	Current Month			Year to date			Full year	
	Actual	Budget	Last Year	Actual	Budget	Last Year	Budget	Last Year
<b>Overseas</b>								
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	165,045	-	16,173	280,073	-	(90,293)	-	75,328
Property Aus chg in Currency	-	-	-	-	-	(76,100)	-	0
Property Aus change in Value	-	-	-	-	-	428,779	-	0
	165,045	-	16,173	280,073	-	(17,928,169)	-	75,328
<b>Total Unrealised Income</b>	2,745,467	-	(1,323,661)	8,753,269	-	(18,420,847)	-	(2,150,187)
<b>Total Investment Income</b>	<b>1,412,573</b>	<b>444,400</b>	<b>201,613</b>	<b>14,044,326</b>	<b>4,742,350</b>	<b>8,488,003</b>	<b>7,045,150</b>	<b>9,138,807</b>
<b>Expenses</b>								
<b>Administrative Expenses</b>								
Advertising - Statutory	-	-	-	13,411	12,000	5,135	12,000	39,135
Promotion	3,122	1,000	163	18,346	54,000	12,732	72,000	23,326
Rent & Services	6,738	9,853	6,938	75,490	78,554	73,317	115,000	103,442
Telephone	989	1,000	765	9,800	8,000	6,760	12,000	10,832
Postage	369	250	205	2,324	2,340	2,104	4,000	3,438
KiwiSaver net Contributions	1,486	1,500	1,221	11,289	12,000	11,341	18,000	18,055
Printing & Stationery	1,571	1,300	1,205	7,423	11,400	10,111	16,000	12,807
Insurance	-	-	-	8,707	8,000	8,287	8,000	7,031
General Expenses	552	330	373	1,471	2,640	2,228	4,000	5,666
Computer Services	3,262	1,000	52	54,957	57,000	49,918	80,000	62,132
Staff Remuneration	43,820	45,000	30,230	306,798	309,555	275,240	475,000	432,882
Staff Training	115	-	-	115	3,000	80	5,000	115
Staff Travel	2,004	2,000	1,285	12,731	12,050	9,809	20,000	13,089
ACC Levies	-	-	-	(544)	2,000	(63)	2,000	1,961
<b>Total Administrative Expenses</b>	64,030	63,233	42,437	522,319	572,539	466,998	843,000	733,912
<b>Trustees Expenses</b>								
Trustees Remuneration	13,177	15,000	13,177	112,004	117,500	109,719	175,000	169,015
Meeting Expenses	7,068	3,000	12,852	33,810	38,500	49,150	55,000	79,255
Trustee Training	-	-	-	1,731	9,500	16,537	10,000	16,996
Liability Insurance	9,537	9,300	8,789	9,537	9,300	8,789	9,300	8,789
<b>Total Trustee Expenses</b>	29,781	27,300	34,818	157,082	174,800	184,195	249,300	274,056
<b>Fee Expenses</b>								
Affiliation Fees	-	-	-	6,325	7,000	7,085	7,500	7,845
Conference Fees	(14,272)	-	-	-	5,000	-	5,000	5,250
Donation Expenses	-	900	-	16,292	8,100	-	10,000	1,104

**Eastern & Central Community Trust**  
**Statement of Financial Performance**  
**For The 8 Periods Ending 30 November, 2014**



	Current Month			Year to date			Full year	
	Actual	Budget	Last Year	Actual	Budget	Last Year	Budget	Last Year
Professional Expenses	7,065	8,000	26,259	57,764	62,250	112,956	90,000	149,691
Audit Fees	2,400	-	-	12,000	2,000	(17)	18,000	22,426
Brokerage Fees	-	1,000	567	19,407	8,000	236,792	12,000	272,336
Custodian Fees	4,384	4,000	6,478	27,552	25,500	40,423	36,000	59,186
Fund Managers Fees	20,277	35,000	25,369	240,724	289,000	241,521	440,000	398,403
<b>Total Fee Expenses</b>	<b>19,854</b>	<b>48,900</b>	<b>58,673</b>	<b>380,064</b>	<b>406,850</b>	<b>638,760</b>	<b>618,500</b>	<b>916,241</b>
Depreciation	1,483	-	1,535	11,986	-	12,978	-	19,312
Amortisation	-	-	-	-	-	-	-	17,974
Profit/Loss on Disposal of Fixed Assets	-	-	592	-	-	592	-	28
<b>Total Expenses</b>	<b>115,148</b>	<b>139,433</b>	<b>138,054</b>	<b>1,071,451</b>	<b>1,154,189</b>	<b>1,303,524</b>	<b>1,710,800</b>	<b>1,961,523</b>
<b>Donations</b>								
<b>Community Donations</b>								
Special Donations	606,000	680,000	684,500	1,719,950	2,180,000	2,160,800	2,800,000	2,916,000
Standard Donations	455,150	331,000	250,760	1,550,078	1,339,000	1,201,740	1,780,000	1,588,140
Discretionary Donations	-	-	-	14,143	13,300	1,000	20,000	16,000
Education Initiatives	-	-	-	92,500	150,000	-	150,000	-
Sport Trusts	-	-	-	320,000	320,000	-	320,000	-
Summer Reading Programme	-	-	-	230,000	230,000	230,000	230,000	230,000
<b>Total Donations Approved</b>	<b>1,061,150</b>	<b>1,011,000</b>	<b>935,260</b>	<b>3,926,671</b>	<b>4,232,300</b>	<b>3,593,540</b>	<b>5,300,000</b>	<b>4,750,140</b>
Regional Project Reserve Fund	-	-	-	-	200,000	-	300,000	-
Less Donations Written Back	(5,380)	-	-	(107,551)	(80,000)	(100,016)	(100,000)	(124,902)
<b>Total Community Donations</b>	<b>1,055,770</b>	<b>1,011,000</b>	<b>935,260</b>	<b>3,819,120</b>	<b>4,352,300</b>	<b>3,493,524</b>	<b>5,500,000</b>	<b>4,625,238</b>
<b>Surplus Income</b>	<b>241,655</b>	<b>(706,033)</b>	<b>(871,701)</b>	<b>9,153,755</b>	<b>(764,139)</b>	<b>3,690,956</b>	<b>(165,650)</b>	<b>2,552,047</b>

## **EASTERN & CENTRAL COMMUNITY TRUST**

### **CASHFLOW REPORT**

#### **FOR THE MONTH ENDING 30 NOVEMBER 2014**

##### **Westpac Call Account**

Opening Statement Balance	<b>1,532,014</b>
---------------------------	------------------

##### **CASH OUTFLOWS:**

Transfer to Current Account	925,000
Monthly Interest to Current Account	
Purchase Term Deposit	

<b>Total cash outflows</b>	<b>925,000</b>
----------------------------	----------------

##### **CASH INFLOWS:**

Transfer From Current Account	0
Interest	2,582
Maturing Term Deposits	

<b>Total cash inflows</b>	<b>2,582</b>
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Closing Statement Balance	<b>609,596</b>
---------------------------	----------------

## **EASTERN & CENTRAL COMMUNITY TRUST**

### **CASHFLOW & PAYMENT AUTHORISATION REPORT**

#### **FOR THE MONTH ENDING 30 NOVEMBER 2014**

#### **Westpac Current Account**

Opening Statement Balance	<b>7,608</b>	0
---------------------------	--------------	---

#### **CASH OUTFLOWS:**

Payments to creditors	94,754	}
Other expenses & Wages	36,706	
Donations	432,000	
Purchase of fixed asset	0	
Capital Items -Purchase of Term Deposit	2,500,000	
-Fee expenses	0	
-Transfer to call a/c	0	
-Transfer to imp a/c	0	
-Transfer to Elevation Capital	0	
-Transfer to Forsyth Barr	0	
-Transfer to Pioneer Capital	0	
Hedging Close Out	1,380,746	
PIMCO	0	
<b>Total cash outflows</b>	<b>4,444,206</b>	

#### **CASH INFLOWS:**

Interest Received (Current & Term Deposits)	18,953
Dividends & Interest (Investment Managers)	95,764
Debtors	84
BNZ Hedging Pay Out	0
Donations Written Back	5,380
Sale of fixed assets	0
Capital Items -Maturing Term Deposits	2,500,000
-Transfer from Pimco	0
-Transfer from Forsyth Barr	1,000,000
-Transfer from call a/c	925,000
-Transfer from imp a/c	0

<b>Total cash inflows</b>	<b>4,545,181</b>
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Closing Statement Balance	<b>108,584</b>
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Unpresented Cheques	0
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Closing Cashbook Balance	<b>108,584</b>
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## **SCHEDULE OF PAYMENTS FROM THE CURRENT ACCOUNT FOR THE MONTH**

### **Payments made in November 2014**

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

<b>CREDITORS</b>	<b>PURPOSE</b>	<b>Payment Method</b>	<b>AMOUNT</b>
AAA Services	Cleaning	dc	\$668.84
Aspire Enterprises	Milk	dc	\$22.49
Clansman Motel	Trustees' Accommodation	dc	\$848.00
Contact Energy	power	dd	\$739.20
Corporate Trustee Services	fees	dc	\$5,460.72
Create Limited	pool assessments	dc	\$2,425.92
Credit Card purchases	staff cards	dd	\$2,567.42
Department of Internal Affairs	Gazette placement	dc	\$435.84
Desktop Technology	computer services	dc	\$431.25
Elevation Capital	fees	dc	\$12,687.50
Forsyth Barr	advisory fees	dc	\$12,279.17
Fuji Xerox	Photocopier print charges	dc	\$732.52
Hastings District Council	parking	dc	\$40.00
Hatmar Holdings	Parking	AP	\$552.00
Hatmar Holdings	Rent	AP	\$4,821.72
Hatmar Holdings	Boardroom / rates / insurance	dc	\$484.16
Helene McCormick	Catering	dc	\$782.00
Inland Revenue Department	PAYE	dc	\$22,477.03
Mobile Finance Manager	Andy Arcus - wages	dc	\$437.00
NZ Post	Postage	dc	\$1,296.16
Napier City Council	HB Funding Workshop costs	dc	\$149.50
OK Media	media releases	dc	\$1,333.65
Online Security	document destruction	dc	\$61.89
Philanthropy NZ	membership / workshops	dc	\$9,194.25
Pitney Bowes	Monthly lease for franking	AP	\$30.48
Pioneer Capital	drawdown 9	dc	\$44,840.00
Promethus Social Lending Services	Social lending	dc	\$690.00
Renovate Turf Consultants	Wairarapa Hockey Turf costing model	dc	\$276.00
Te Kete Putea	third quarter services	dc	\$18,316.73
Telecom	Telephone costs	DD	\$1,087.56
Tracta	Advertising / annual report	dc	\$1,149.33
Triko Security	Security	dc	\$253.00
Warehouse Stationery	Stationery	dc	\$261.19
Xplore.Net Solutions	Website	dc	\$57.50
			<b>\$147,890.02</b>
<b><u>REMUNERATION (includes reimbursement of travel)</u></b>			
Staff & Trustees	Remuneration (net) paid 10.11.2014	dc	\$17,922.78
Staff & Trustees	Remuneration (net) paid 24.11.2014	dc	\$18,783.95
<b><u>DONATION PAYMENTS</u></b>			
Donations		dc	\$432,000.00
<b>TOTAL PAYMENTS FOR THE MONTH</b>			<b>\$616,596.75</b>

### **Key to Payment Method**

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

## **SCHEDULE OF SELF MANAGED INVESTMENTS**

AS AT 30th November 2014

### **TERM DEPOSITS**

<u>Value</u>	<u>Bank</u>	<u>Date Invested</u>	<u>Term</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
\$ 2,000,000	Westpac	7-Oct-14	92	4.54%	7/01/2015
\$ 2,500,000	BNZ	4-Nov-14	92	4.54%	4/02/2015
\$ 2,500,000	BNZ	5-Dec-14	90	4.53%	5/03/2015

<b>\$ 7,000,000</b>	<b>TOTAL</b>
---------------------	--------------

### **CURRENT ASSETS**

<u>Bank</u>	<u>Cashbook</u>	<u>Statement</u>
Westpac Call Account	\$609,596.00	
Westpac Current*	\$108,584.00	\$0.00
Westpac Imprest	\$1,205.95	
Petty Cash	\$37.80	
	<b>\$719,423.75</b>	

### **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	\$ 5,000,000.00	64.8%
ANZ	\$ -	0.0%
Kiwibank	\$ -	0.0%
Westpac	\$ 2,000,000.00	25.9%
HBS	\$ -	0.0%

<b>TOTAL CURRENT ASSETS</b>	<b>\$7,719,423.75</b>	(excludes accrued interest owed)
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## QUOTES FOR TERM DEPOSITS

## TRUST

DATE Of Investment 4-Dec-14

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

Amount to invest **\$2,500,000** Confirmed \$2,500,000

Bank Accepted **BNZ**  
Rate **4.53%**  
Maturity Date **5-Mar-15**  
Number of days **90** Ask  
Account Number **03 0642 0797656 00**  
Dealer

**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	Joshua Hamblyn	James Barnes		Andrew mark (2)	Mark Barton or	Kelly
Telephone	0800 272 332 arthur	Ext 46339	Karl 830 0983	0800 334 020 client 650681	Jon Schicker 0800 11 33 15	DD 870 9066
Rate Offered	Nil Jake	4.53% James	4.35% Karl	4.45% Virginia	4.30% Roger & Mark	4.30% Kelly
Account to withdraw	Trust Current	Trust Current	Trust Current	Trust Current	Trust Current	Trust Current
Account Number	03 0642 0797656 00	03 0642 0797656 00	03 0642 0797656 00	03 0642 0797656 00	03 0642 0797656 00	03 0642 0797656 00
				john-treasury Peter Oake 834 3738 Rachel Wilson 878 0846 or 0274299006 Virginia 878 0845	roger	Jenny Lambie 870 9066

### Comments for consideration and reason for decision.

Call account balance is \$1.15m as at 30 Nov 2014  
Hedging rollover in Feb 2015, other TD maturing to cover if needed  
Next TD is Westpac \$2.0 mill 7th Jan 2014.  
Pioneer Capital commitment nothing likely in next 4 weeks  
Presently, FBECCL has \$4.38million cash available if an emergency.  
We have \$7 million on Term Deposit.  
Donation Creditors stand at \$2.42 mill at 30th Nov 2014.  
Payments approved last Trust meeting approx \$980k

[financialmarkets@kiwibank.co.nz](mailto: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 \$2,500,000.00

Signed .....

Date .....

Expected interest on maturity \$27,924.66

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

Signed .....

Date .....

ENTER MATURITY DATE ON PERSONAL CALENDAR

Once completed place this page in deskfile. Once confirmation received from bank take a copy and attach. Give original to Jill.

# E&CCT ASSET ALLOCATION

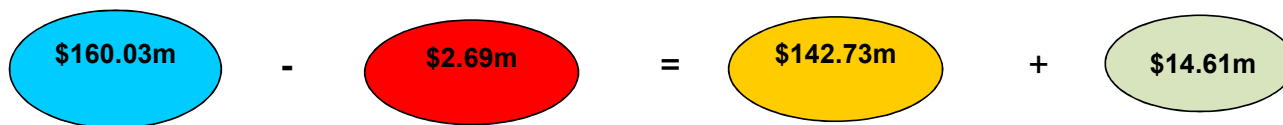
AS AT 30th Nov 2014

CURRENT ASSETS

LIABILITIES

CAPITAL BASE

RESERVES



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
<b>60%</b>	<b>GROWTH ASSETS</b>	<b>50 - 65%</b>	<b>60%</b>	<b>\$97.1</b>	<b>60.7%</b>	<b>0.7%</b>	<b>\$1.1</b>
30.0%	Shares Forsyth Barr	22.5% - 37.5%	30.0%	\$49.0	30.6%	0.6%	\$1.0
30.0%	Shares Elevation Capital	22.5% - 37.5%	30.0%	\$47.4	29.6%	-0.4%	-\$0.6
0%	Private Equity	0% - 0%	0%	\$0.7	0.4%	0.4%	\$0.7
<b>35%</b>	<b>INCOME ASSETS</b>	<b>25 - 45%</b>	<b>35%</b>	<b>\$54.8</b>	<b>34.3%</b>	<b>-0.7%</b>	<b>-\$1.2</b>
27.5%	NZ Bonds	20 - 35%	27.5%	\$39.8	24.8%	-2.7%	-\$4.3
7.5%	Overseas Bonds	5% - 10%	7.5%	\$15.1	9.4%	1.9%	\$3.1
<b>5%</b>	<b>LIQUID ASSETS</b>	<b>2 - 10%</b>	<b>5%</b>	<b>\$8.1</b>	<b>5.1%</b>	<b>0.1%</b>	<b>\$0.1</b>
5%	Self-managed Cash (Incl Hedges & TKP)	2 - 10%	5%	\$8.1	5.1%	0.1%	\$0.1
<b>100%</b>	<b>TOTAL</b>		<b>100%</b>	<b>\$160.0</b>	<b>100.0%</b>		<b>\$0.0</b>

**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%.

**PORTFOLIO RECONCILIATION**  
**Eastern & Central Community Trust**  
**30 November 2014**

**Cash Reconciliation**

	Schedule		NZD
31-Oct-2014		<b>Opening Balance</b>	<b>920,358.08</b>
	2	Capital Invested & Withdrawn	0.00
	3	Interest (RWT exempt)	2,290.84
		Interest (RWT exempt) - paid to ECCT	(2,097.59)
	4	Dividends & Distributions	52,089.12
		Dividends & Distributions - paid to ECCT	(50,375.82)
	5	Fees, Expenses & Fee Rebates	(7.63)
		Cash Movement	
	10	Shares	0.00
	6	Cash currency m/e revaluation	(9,525.34)
	7	Term Deposit Maturity	0.00
		FX Transactions Gain/loss	0.00
30-Nov-2014		<b>Closing cash</b>	<b>912,731.65</b>
		<b>Closing Bank balance</b>	<b>912,731.66</b>
		<b>Variance</b>	<b>(0.00)</b>

**ELEVATION CAPITAL**

**Asset Valuation**

	Schedule		NZD
31-Oct-2014		<b>Opening Valuation</b>	<b>47,406,562.27</b>
	2	Capital Invested & Withdrawn	0.00
	7	Term deposits (incl accrued Interest)	0.00
	8	Cash	912,731.66
	9	Shares Valuation*	46,515,762.44
30-Nov-2014		<b>Closing Valuation</b>	<b>47,428,494.10</b>
		Monthly Change	21,931.83

**PORTFOLIO RECONCILIATION**  
**Eastern & Central Community Trust**  
**30 November 2014**

**FORSYTH BARR**

**Cash Reconciliation**

	Schedule		NZD
31-Oct-2014		<b>Opening Valuation</b>	<b>120,034.29</b>
	2	Capital Invested & Withdrawn	0.00
	3	Interest (RWT exempt)	274.18
		Interest (RWT exempt) - paid to ECCT	(468.43)
	4	Dividends & Distributions	35,766.50
		Dividends & Distributions - paid to ECCT	(42,822.01)
	5	Fees, Expenses & Fee Rebates	(7.63)
		Cash Movement	
	10	Shares	0.00
	7	Cash Deposits	0.00
	6	Cash currency m/e revaluation	(74.68)
30-Nov-2014	11	<b>Closing cash</b>	<b>112,702.22</b>
		<b>Closing Bank balance</b>	<b>112,702.22</b>
		<b>Variance</b>	<b>(0.00)</b>

**Asset Valuation**

	Schedule		NZD
31-Oct-2014		<b>Opening Valuation</b>	<b>48,414,179.01</b>
	2	Capital Invested & Withdrawn	0.00
	7	Term deposits (incl accrued Interest)	0.00
		Cash	112,702.22
	4	Dividends & Distributions	
	6	Shares Valuation*	48,900,310.45
30-Nov-2014		<b>Closing Valuation</b>	<b>49,013,012.67</b>
		Monthly Change	<b>598,833.65</b>

\* Share Valuation is unaudited last trading prices at month end

Summary Information

Fund Name	31/10/2014	Cash Flow	30/11/2014
	Value		Value
PIMCO NZD Hedged Global Strategy Fund	14,922,809	0	15,083,391

Performance									
	1 Month	3 Month	FYTD	1 Year	2 Year	3 Year	5 Year	10 Year	Since Inception
Fund - Net of Fees*	1.08	1.73	3.65	9.62					5.91
Benchmark**	1.14	1.80	4.01	10.26					6.82
Net of Fee Alpha	(0.06)	(0.07)	(0.36)	(0.64)					(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

Investment Characteristics

Investment Statistics	
Effective Duration	6.0
Benchmark Duration	6.6
Average Maturity	8.3
Average Coupon	3.7
Average Quality	A-
Total Carry	6.6

Quality Breakdown		
MV %		MV %
Portfolio		Benchmark
15	AAA	12
11	AA	22
30	A	33
42	BBB	33
2	Sub Inv Grade	0
100	Total	100

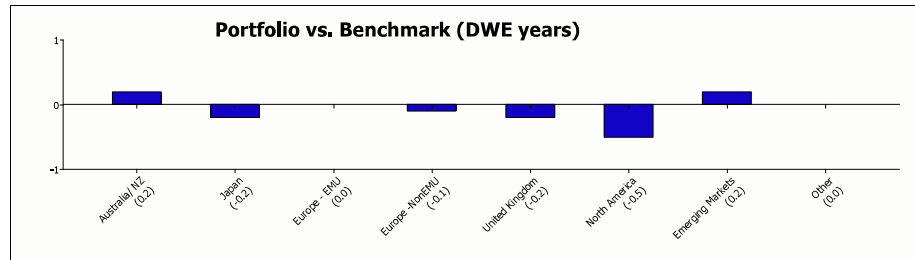
Curve Exposure				
Duration Weighted Exposure %			Duration Weighted Exposure	
Portfolio	Benchmark		Portfolio	Benchmark
1	0	0-1 years	0.1	0
5	8	1-3 years	0.3	0.5
10	14	3-5 years	0.6	0.9
28	15	5-7 years	1.7	1.0
13	9	7-8 years	0.8	0.6
19	9	8-10 years	1.1	0.6
24	45	10+ years	1.4	2.9
100	100	Total	6.0	6.5

Regional Breakdown (by currency of settlement)					
Duration Weighted Exposure %			Duration Weighted Exposure		FX Exposure
Portfolio	Benchmark		Portfolio	Benchmark	Portfolio
4.4	0.7	Australia/ NZ	0.3	0.0	95.5
8.6	10.4	Japan	0.5	0.7	-0.8
24.2	21.9	Europe - EMU	1.4	1.4	-1.3
0.0	1.0	Europe -NonEMU	0.0	0.1	0.0
7.4	9.8	United Kingdom	0.4	0.6	0.1
52.0	54.9	North America	3.1	3.6	5.8
3.4	0.6	Emerging Markets	0.2	0.0	0.6
0.0	0.7	Other	0.0	0.0	0.0
100.0	100.0	Total	6.0	6.6	100.0

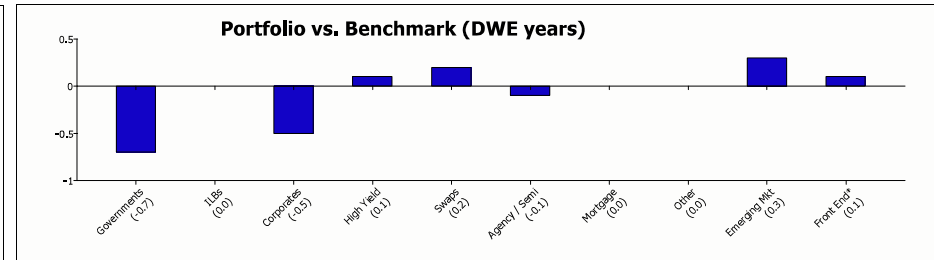
Sector Breakdown				
Duration Weighted Exposure %			Duration Weighted Exposure	
Portfolio	Benchmark		Portfolio	Benchmark
21	29	Governments	1.2	1.9
0	0	ILBs	0.0	0.0
64	65	Corporates	3.8	4.3
1	0	High Yield	0.1	0.0
4	0	Swaps	0.2	0.0
1	3	Agency / Semi	0.1	0.2
0	0	Mortgage	0.0	0.0
0	0	Other	0.0	0.0
8	3	Emerging Mkt	0.5	0.2
1	0	Front End*	0.1	0.0
100	100	Total	6.0	6.6

\* 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

P I M C O

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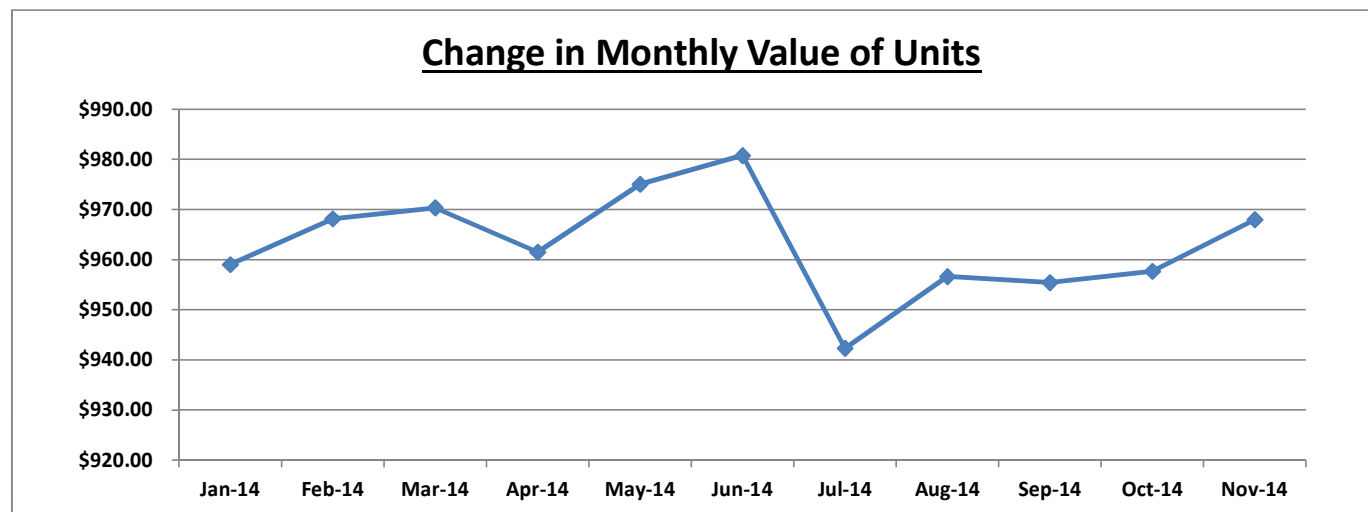
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Government/Agency Sectors may include government guaranteed corporate securities which carry explicit guarantees of timely payment of interest and principal from central governments.

P I M C O

## PIMCO MONTHLY COMPARISON REPORT

Month	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
\$/Unit	\$ 959.03	\$ 968.15	\$ 970.35	\$ 961.52	\$ 975.05	\$ 980.76	\$ 942.34	\$ 956.64	\$ 955.43	\$ 957.69	\$ 967.99
Unit Monthly change		\$ 9.12	\$ 2.20	-\$ 8.84	\$ 13.54	\$ 5.71	-\$ 38.42	\$ 14.30	-\$ 1.21	\$ 2.25	\$ 10.31



# **Eastern & Central Community Trust Inc**

## **Monthly Report for November 2014**

<h2 style="text-align: center;">Transaction Summary</h2> <p style="text-align: center;">Eastern &amp; Central Community Trust Inc</p>
---

The bond purchases over the period were as follows:

Issuer	Maturity Date	Face Value	Cost <sup>1,3</sup>	Yield
--------	---------------	------------	---------------------	-------

Nil

The bond sales over the period were as follows:

Issuer	Maturity Date	Face Value	Proceeds <sup>2</sup>	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 <sup>1,3</sup>	Yield
--------	---------------	------------	---------------------	-------

Nil

<sup>1</sup> Cost includes brokerage, if any

<sup>2</sup> Proceeds are less brokerage, if any

<sup>3</sup> 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 **November**, the following occurred:

- **Rabobank** had its credit rating downgraded by S&P to A+ due to concerns that impairments from its CRE and SME loan portfolios will remain elevated in 2015 and 2016. As a consequence RBOHA and RCSHA were downgraded from BBB to BBB-. **ECCT holds \$1,000,000 of RBOHA.**
- **Credit Agricole (CASHA)** had its credit rating outlook raised from Stable to Positive and affirmed its Ba2 credit rating on the deeply subordinated notes. **ECCT holds \$500,000 of CASHA.**

During **December** the following will occur:

- Nil

## 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-	\$4,400,000	12.8%
BBB+	\$10,500,000	30.6%
BBB	\$3,375,000	9.9%
BBB-	\$1,000,000	2.9%
BB+	\$6,104,000	17.8%
BB	\$0	0.0%
BB-	\$0	0.0%
Not Rated	\$8,881,296	25.9%
	<b>\$34,260,296</b>	<b>100%</b>
Average Weighted Credit:		<b>BBB</b>

## Portfolio Reconciliation

Eastern & Central Community Trust Inc

### 1. Market Value (Marked to Market)

Opening Value	\$40,581,474.94
Contributions / (Withdrawals)	(\$1,000,000.00)
Adjusted Opening Value	\$39,581,474.94
<b>Closing Value</b>	<b>\$39,750,294.00</b>
Monthly Change	\$168,819.06

### 2. Capital Movements for Month

Opening Value	\$40,111,543.46
Contributions / (Withdrawals)	(\$1,000,000.00)
Plus Interest Received	\$249,264.60
Adjusted Opening Value	\$39,360,808.06
<b>Closing Value</b>	<b>\$36,410,969.91</b>
Monthly Change	(\$2,949,838.15)
Realised Gains	\$0.00
Unrealised Change in Portfolio Value	(\$2,949,838.15)

### 3. Accrued Interest for Month

Opening Value	\$469,931.48
Closing Value	\$389,017.59
Monthly Change	(\$80,913.89)

# Contributions & Progress

Eastern & Central Community Trust Inc

1870575 GPW

From 1 November 2014 To 30 November 2014

Transaction Date	Security	Transaction Description	Net Amount (Native)	FX Rate	Net Amount (NZD)
<b>All figures are shown in New Zealand Dollars (NZD)</b>					
<b>Opening Portfolio Valuation</b>					<b>40,554,356.04</b>
<b>Cash Withdrawals</b>					
03/11/14	Account Ledger	Withdrawal from Portfolio	NZD (1,000,000.00)	1.0000	(1,000,000.00)
					<b>(1,000,000.00)</b>
<b>Net Contributions to Portfolio</b>					<b>(1,000,000.00)</b>
<b>Closing Portfolio Valuation</b>					<b>39,750,294.00</b>

This schedule reports on the value of securities or cash transferred into or from your portfolio. All values have been converted to New Zealand dollars using the applicable foreign exchange (FX) rates on the transaction date.

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# Accrued Interest

Eastern & Central Community Trust Inc

1870575 GPW

Sunday 30 November 2014

Reporting Currency: New Zealand Dollar

Security	Amount Accrued
ASB Bank Limited Subordinated Notes 15/06/2024 6.65%	27,769.23
Auckland International Airport Limited 15/11/2016 8.00%	6,629.83
Christchurch International Airport Limited 04/10/2021 6.25%	19,574.18
Contact Energy Limited 15/05/2019 5.80%	3,250.68
Fletcher Building Industries Limited 15/03/2019 6.45%	6,770.72
Fletcher Building Industries Limited 15/05/2016 7.75%	4,816.99
Genesis Energy Limited 15/09/2016 7.185%	15,084.53
GMT Bond Issuer Limited 19/06/2015 7.75%	69,453.55
Infratil Limited 15/11/2015 8.50%	1,732.34
Infratil Limited 15/11/2018 6.85%	544.46
Kiwi Capital Funding Limited 15/07/2024 6.61%	6,196.88
Kiwi Income Property Trust Bonds 20/08/2021 6.15%	12,784.65
Kiwibank Limited 15/12/2017 5.80%	15,973.77
Meridian Energy Limited 16/03/2017 7.55%	15,642.27
Mighty River Power Limited Capital Bonds 11/07/2044 6.90%	17,531.25
Powerco Limited 28/09/2017 6.74%	14,581.73
Powerco Limited 29/06/2015 6.53%	8,341.90
Sky Network Television Limited 31/03/2021 6.25%	2,590.01
Spark Finance Limited 22/03/2016 7.04%	32,205.08
TrustPower Limited 15/09/2019 6.75%	31,710.16
TrustPower Limited 15/12/2015 8.40%	8,769.23
Vector Limited 15/06/2017 7.00%	61,884.59
Wellington International Airport Limited 15/05/2021 6.25%	5,179.56
<b>Total</b>	<b>389,017.59</b>

These accruals are indicative of interest accrued prior to any tax adjustments; final allocations to be confirmed upon receipt. This report is interim only and some of the figures included may be subject to change due to some data being unprocessed at the time this report is created. The information shown in this report is obtained from various sources believed to be reliable. While every effort has been made to ensure accuracy, no liability is accepted for any errors or omissions. The foreign exchange (FX) rates reported are the closing rates as at the close of business. Actual transaction FX rates may differ.

## Cash Ledger

Eastern & Central Community Trust Inc

1870575 GPW

From 1 November 2014 To 30 November 2014

### 1. Current Cash Holdings

Currency	Amount	FX Rate	NZ Dollar Value
<b>New Zealand Dollar</b>			
Forsyth Barr Cash Management	4,382,338.70	1.0000	4,382,338.70
			<b>4,382,338.70</b>

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# Cash Ledger

Eastern & Central Community Trust Inc

1870575 GPW

From 1 November 2014 To 30 November 2014

## 2. Cash Transactions

Date	Transaction	Value
<b>New Zealand Dollar</b>		
<b>Forsyth Barr Cash Management</b>		
	<b>Opening Balance:</b>	<b>5,133,074.10</b>
03/11/14	Transfer to Account Ledger	-1,000,000.00
14/11/14	Transfer from Account Ledger	10,712.32
14/11/14	Transfer from Account Ledger	3,339.37
17/11/14	Transfer from Account Ledger	58,602.73
17/11/14	Transfer from Account Ledger	80,000.00
17/11/14	Transfer from Account Ledger	19,937.50
17/11/14	Transfer from Account Ledger	62,500.00
30/11/14	Interest Received - Forsyth Barr Cash Management	14,172.68
	<b>Closing Balance:</b>	<b>4,382,338.70</b>
<b>Account Ledger</b>		
	<b>Opening Balance:</b>	<b>0.00</b>
03/11/14	Transfer to Account Ledger	1,000,000.00
03/11/14	Withdrawal from Portfolio	-1,000,000.00
14/11/14	Interest Received - Infratil Limited 15/11/2015 8.50%	10,712.32
14/11/14	Interest Received - Infratil Limited 15/11/2018 6.85%	3,339.37
14/11/14	Transfer from Account Ledger	-10,712.32
14/11/14	Transfer from Account Ledger	-3,339.37
17/11/14	Interest Received - Auckland International Airport Limited 15/11/2016 8.00%	80,000.00
17/11/14	Interest Received - Contact Energy Limited 15/05/2019 5.80%	19,937.50
17/11/14	Interest Received - Fletcher Building Industries Limited 15/05/2016 7.75%	58,602.73
17/11/14	Interest Received - Wellington International Airport Limited 15/05/2021 6.25%	62,500.00
17/11/14	Transfer from Account Ledger	-58,602.73
17/11/14	Transfer from Account Ledger	-80,000.00
17/11/14	Transfer from Account Ledger	-19,937.50
17/11/14	Transfer from Account Ledger	-62,500.00
	<b>Closing Balance:</b>	<b>0.00</b>

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## Cash Ledger

Eastern & Central Community Trust Inc

1870575 GPW

From 1 November 2014 To 30 November 2014

### 3. Foreign Exchange Transactions

Cash transactions between currencies (extracted from Cash Ledger 2. Cash Transactions)

Date	Transaction	Currency	Value	FX Rate	NZ Dollar Value

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## Income Summary

Eastern & Central Community Trust Inc  
1870575 GPW

Prescribed Investor Rate (PIR) 0%  
Withholding Tax Rate Exempt

From 1 November 2014 to 30 November 2014

<b>All figures are shown in New Zealand Dollars (NZD)</b>	<b>Gross Amount</b>	<b>PIE Tax</b>	<b>Withholding Tax</b>	<b>Imputation Credits</b>	<b>Withholding Payment Credits</b>	<b>Issuer Management Fees</b>	<b>Net Amount</b>
Cash & At Call	14,172.68						14,172.68
Fixed Interest	235,091.92						235,091.92
New Zealand Equities							
Foreign Equities							
<b>Total Portfolio Income</b>	<b>249,264.60</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>249,264.60</b>

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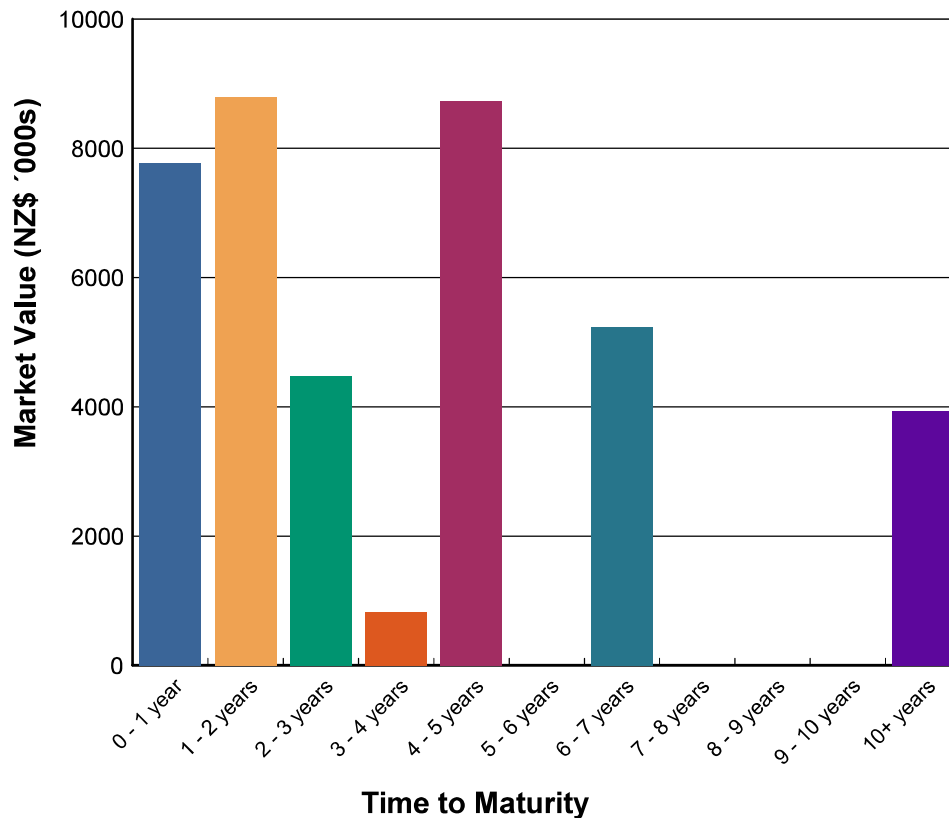


# Maturity Profile

Eastern & Central Community Trust Inc

1870575 GPW

30 November 2014



Maturity	Market Value NZ\$	Profile %
0 - 1 year	7,773,333.92	19.56
1 - 2 years	8,791,801.43	22.12
2 - 3 years	4,467,643.22	11.24
3 - 4 years	817,421.03	2.06
4 - 5 years	8,723,517.29	21.95
5 - 6 years	0.00	0.00
6 - 7 years	5,240,488.61	13.18
7 - 8 years	0.00	0.00
8 - 9 years	0.00	0.00
9 - 10 years	0.00	0.00
10+ years	3,936,088.50	9.90
<b>Total</b>	<b>39,750,294.00</b>	<b>100.00</b>

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## Portfolio Appraisal

Securities listed by market on which they trade

Eastern & Central Community Trust Inc  
1870575 GPW

Sunday 30 November 2014

New Zealand Dollar		Local Currency				
Quantity	Security	Unit Cost	Total Cost	Current Price	Market Value	% Asset (1)
<b>Cash</b>						
<b>At Call</b>						
	Forsyth Barr Cash Management		4,382,338.70		4,382,338.70	11.0%
			<b>4,382,338.70</b>		<b>4,382,338.70</b>	<b>11.0%</b>
<b>Fixed Interest</b>						
<b>Direct</b>						
2,000,000	GMT Bond Issuer Limited 19/06/2015 7.75%	1.01	2,016,412.80	1.018	2,036,062.75	5.3%
750,000	Powerco Limited 29/06/2015 6.53%	0.95	714,584.56	1.012	759,122.39	1.9%
500,000	Infratil Limited 15/11/2015 8.50%	1.00	500,000.00	1.033	516,282.29	1.3%
500,000	TrustPower Limited 15/12/2015 8.40%	1.00	500,000.00	1.031	515,591.68	1.3%
2,400,000	Spark Finance Limited 22/03/2016 7.04%	1.00	2,400,000.00	1.034	2,482,434.68	6.3%
1,500,000	Fletcher Building Industries Limited 15/05/2016 7.75%	1.00	1,500,000.00	1.035	1,553,009.16	3.9%
1,000,000	Genesis Energy Limited 15/09/2016 7.185%	1.01	1,005,116.20	1.043	1,042,961.94	2.7%
1,000,000	Sky Television Network Limited 16/10/2016 4.43%	1.00	995,995.00	0.992	992,000.00	2.5%
2,000,000	Auckland International Airport Limited 15/11/2016 8.00%	1.00	2,000,000.00	1.069	2,138,298.31	5.4%
1,000,000	Meridian Energy Limited 16/03/2017 7.55%	1.00	1,000,000.00	1.060	1,060,045.58	2.7%
1,926,000	Vector Limited 15/06/2017 7.00%	1.01	1,943,434.57	1.041	2,005,143.51	5.2%
1,250,000	Powerco Limited 28/09/2017 6.74%	0.93	1,158,448.47	1.048	1,310,345.54	3.3%
600,000	Kiwibank Limited 15/12/2017 5.80%	1.00	600,000.00	0.996	597,303.96	1.5%
195,000	Infratil Limited 15/11/2018 6.85%	1.00	195,000.00	1.044	203,598.84	0.5%

## Portfolio Appraisal

Securities listed by market on which they trade

Eastern & Central Community Trust Inc  
1870575 GPW

Sunday 30 November 2014

New Zealand Dollar		Local Currency				
Quantity	Security	Unit Cost	Total Cost	Current Price	Market Value	% Asset (1)
500,000	Fletcher Building Industries Limited 15/03/2019 6.45%	1.00	500,000.00	1.026	513,085.16	1.3%
1,375,000	Contact Energy Limited 15/05/2019 5.80%	1.00	1,375,000.00	1.040	1,429,885.68	3.6%
2,000,000	ASB Bank Limited Subordinated Notes 15/06/2024 6.65%	1.00	2,000,000.00	1.042	2,083,904.71	5.3%
1,870,000	Mighty River Power Limited Capital Bonds 11/07/2044 6.90%	1.00	1,870,000.00	1.057	1,975,994.71	5.0%
250,000	Kiwi Capital Funding Limited 15/07/2024 6.61%	1.00	250,000.00	1.039	259,699.87	0.7%
2,250,000	TrustPower Limited 15/09/2019 6.75%	1.00	2,250,000.00	1.052	2,367,718.24	6.0%
250,000	Sky Network Television Limited 31/03/2021 6.25%	1.00	250,000.00	1.035	258,744.59	0.7%
2,000,000	Wellington International Airport Limited 15/05/2021 6.25%	1.00	2,000,000.00	1.046	2,092,709.34	5.3%
750,000	Kiwi Income Property Trust Bonds 20/08/2021 6.15%	1.00	750,000.00	1.025	768,467.10	2.0%
2,000,000	Christchurch International Airport Limited 04/10/2021 6.25%	1.01	2,014,084.40	1.040	2,080,439.18	5.3%
958,000	Genesis Energy Limited 15/07/2041 6.19%	1.07	1,022,535.58	1.029	985,782.00	2.5%
	Accrued Interest				389,017.59	1.0 %
Perpetuals						
500,000	ANZ Bank New Zealand Limited Perpetual 5.28%	1.00	500,000.00	1.008	503,750.00	1.3%
500,000	Credit Agricole Perpetual Deeply Subordinated Notes 5.04%	1.00	500,000.00	0.760	380,000.00	1.0%
12,750	Nufarm Finance NZ Limited Preference Shares 6.6357%	115.74	1,475,694.44	87.926	1,121,056.50	2.8%

## Portfolio Appraisal

Securities listed by market on which they trade

Eastern & Central Community Trust Inc  
1870575 GPW

Sunday 30 November 2014

New Zealand Dollar		Local Currency				
Quantity	Security	Unit Cost	Total Cost	Current Price	Market Value	% Asset (1)
1,000,000	Rabobank Nederland Perpetual 4.5875%	1.00	1,000,000.00	0.945	945,500.00	2.4%
			34,286,306.02		35,367,955.30	89.0%
Total			38,668,644.72		39,750,294.00	100.0%
<div>Exchange rate to New Zealand Dollar (FX = 1.0000) New Zealand Dollar Market Value of New Zealand Dollar assets: <div>\$39,750,294.00</div></div>						

## Portfolio Appraisal

Securities listed by market on which they trade

Eastern & Central Community Trust Inc  
1870575 GPW

Sunday 30 November 2014

New Zealand Dollar		Local Currency				
Quantity	Security	Unit Cost	Total Cost	Current Price	Market Value	% Asset (1)

(1) Expressed as a percentage of the total value of the portfolio, as stated in the Portfolio Summary.

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## Portfolio Summary

Eastern & Central Community Trust Inc

1870575 GPW

Sunday 30 November 2014

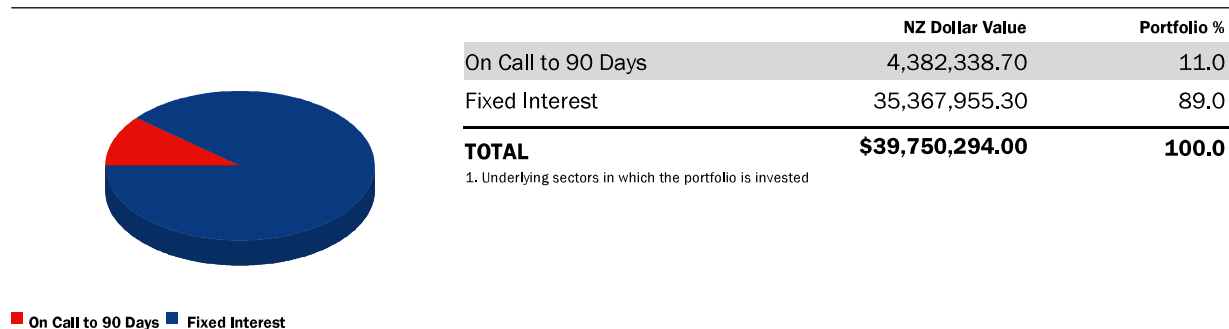
### Premium Advisory Service

Your Forsyth Barr Advisor will provide you with advice in relation to this portfolio, while you, the investor, will determine the investments held and any changes to those investments by instructing us on each and every transaction. You will then receive the relevant contract note or acknowledgement, to confirm the details of the transaction.

Our understanding of the basis of provision of advice to you is as follows:

You request our advice on each of the securities in your portfolio and to receive recommendations for other securities or opportunities that you may wish to consider.

### Asset Allocation <sup>1</sup>



### Portfolio Valuation <sup>2</sup>



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## Transactions

Securities listed by market on which they trade

Eastern & Central Community Trust Inc

1870575 GPW

From 1 November 2014 To 30 November 2014

				Local Currency			NZD	
Transaction Date	Quantity	Security	Transaction Description	Net Unit Price	Net Amount	Transaction Cost	FX Rate	Net Amount
Transactions								
					0.00			0.00

Securities listed by market on which they trade

1870575 GPW

From 1 November 2014 To 30 November 2014

				Local Currency				NZD	
Transaction Date		Quantity	Security	Transaction Description	Net Unit Price	Net Amount	Transaction Cost	FX Rate	Net Amount

<b>Report type:</b>	Financial information papers
<b>Recommendation:</b>	The Executive notes financial advisor's monthly report of the Trust Investment Portfolio as at 30th November 2014.
<b>Agenda item no:</b>	8
<b>Subject:</b>	Investment Portfolio Report
<b>Responsible for the report:</b>	General Manager

<b>Purpose of report:</b>	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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## Investment monitoring

### report & analysis to 30 November 2014

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

	Month	Year-to-date (8 months)
Income return	(0.61%)	3.41%
Market movement	1.50%	5.77%
Total return	0.88%	9.36%

2. **Summarised accounts (\$)**

Assets at start	159,075,999	150,049,641
Net cash flow	(538,125)	(3,954,544)
Income received/ (paid)	(972,465)	5,132,018
Growth gains/ (losses)	2,374,428	8,712,722
Total investment gains/ (losses)	1,401,963	13,844,740
Assets at end	159,939,837	159,939,837
Income sector assets at end		62,616,878 (39.2%)
Growth sector assets at end		97,322,959 (60.8%)

3. **Month**

In respect of the investment results to 30 November 2014, we note:

- The asset value is \$159,939,837, up \$0.86m over the month [ Last month: \$159,075,999 ].
- The portfolio generated investment income of -\$972,465 [vs monthly budget: \$568,310 ].
- The overall investment return for the month was positive 0.88%, i.e.\$1,401,963.

4. **Strategy - current month**

- The investment allocation to each sector is within  $\pm$  2.1% of the benchmark asset allocation.
- Listed shares is 1.6% below the benchmark, and Cash is 2.1% above the benchmark.
- The latest hedging contract position of overseas shares was: 50% hedged to Euro, USD and GBP; 0% hedged to AUD.

5. **Market movements - current month**

- Positive: Cash, NZ bonds, Overseas bonds, Listed shares.
- Negative: Nil.

All markets had a good month.

6. **Investment managers' performance (relative to market indices)**

- Positive: Cash.
- Negative: NZ bonds, Overseas bonds, Listed shares.

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## Current issues

### Environment

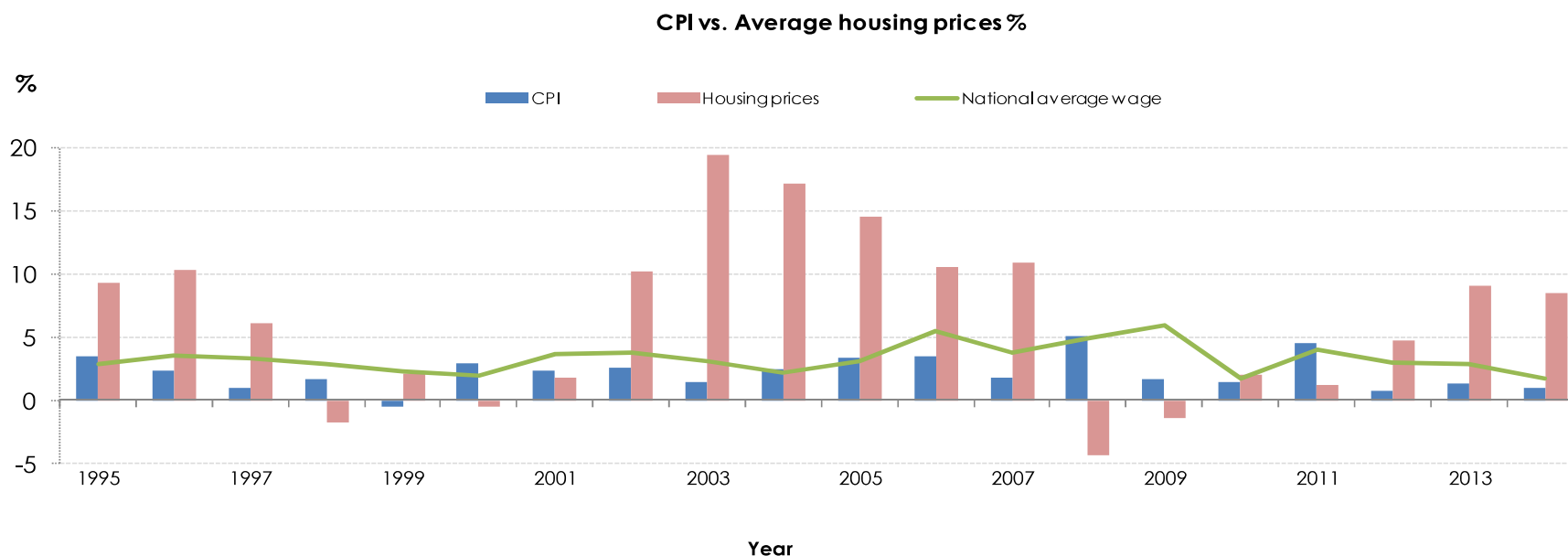
The environment continues to be a low interest rate, low overall inflation and low economic growth environment. We expect this to continue for the foreseeable future (next 5 to 10 years) driven by the demographics (ageing of the baby boomers), the debt levels of major western governments and the fiscal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

### Monthly theme

#### NZ Consumer Price Index (CPI) vs Housing prices

The graph below shows the New Zealand CPI and change in median housing prices over the last 20 years. The main factor driving the rise in 2003/4 was very strong global economic activity, backed by a strategy of targeted low interest rates as the US Federal Reserve sought to ensure the US economy avoided the recession and the impacts of 9/11.

When the financial crisis reached its peak in 2008/9, the housing prices, like all assets, declined as liquidity reduced. This negative impact on housing prices has also been reflected in the housing market in 1998 and 2000. In recent years, the impact of migration from overseas has led to soaring property demand. This is most evident in Auckland.



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## Objectives

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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.

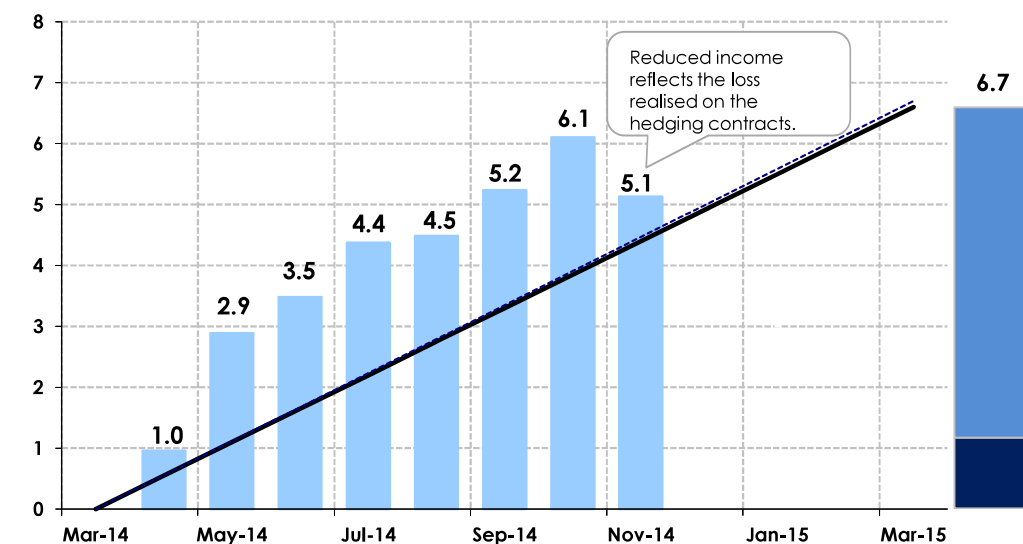
30 November 2014

### 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:

**Investment income return (YTD)**



The Trust is on target to achieve its income objective.

Total target is \$6.7m

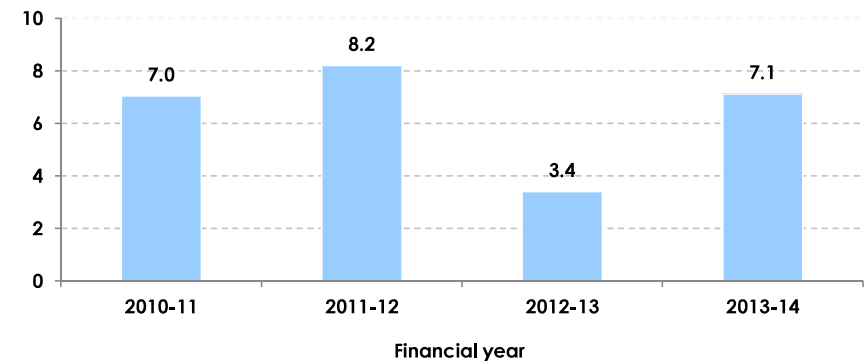
\$6.8m target income

Target grants are \$5.5m

Estimated operation costs are \$1.2m

The income comes from interest, coupons, dividends and currency hedging settlements. Details of the source of the income by sector are on page 5.

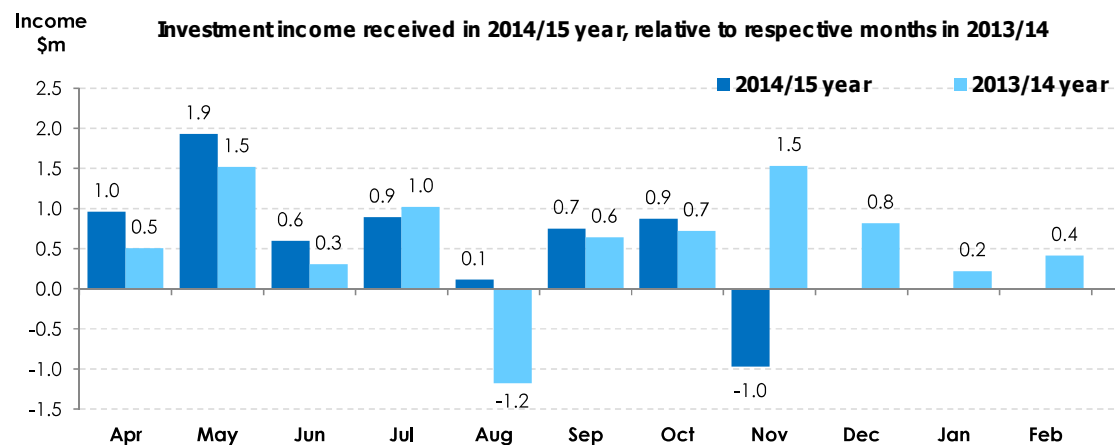
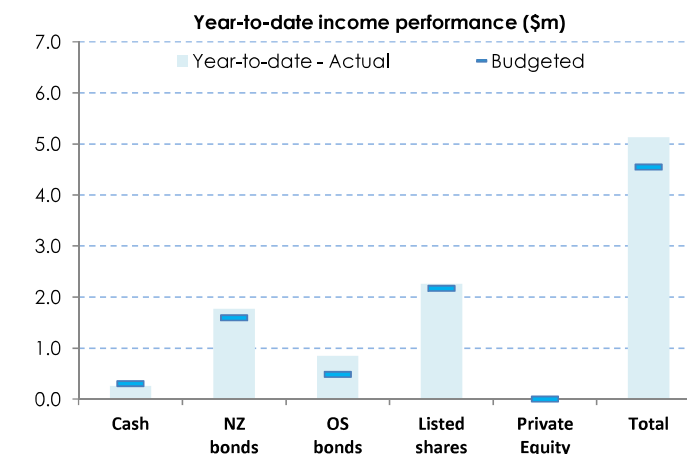
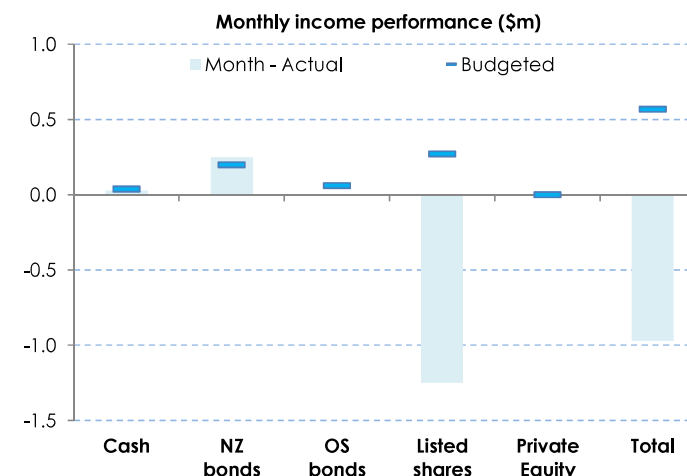
**Historical investment income (\$m)**



30 November 2014

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	0.03	0.25	0.00	-1.25	0.00	-0.97
Budget	0.04	0.20	0.06	0.27	0.00	0.57
Year-to-date						
Actual	0.25	1.77	0.85	2.26	0.00	5.13
Budget	0.30	1.59	0.48	2.17	0.00	4.55



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

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## Investment movement by sector

	Cash	NZ Bonds	OS Bonds	Listed shares	Private equity	Trust
<b>Month</b>						
<b>Assets at 01 November 2014</b>	<b>8,583,560</b>	<b>40,581,475</b>	<b>14,922,809</b>	<b>94,328,873</b>	<b>659,282</b>	<b>159,075,999</b>
Net investment earnings						
+ Dividends/ Coupons/ interest	28,888	249,265	0	-1,250,617	-	-972,465
+ Realised/ unrealised gains(losses)	0	-53,327	165,506	2,262,248	-	2,374,428
	28,888	195,938	165,506	1,011,631	0	1,401,963
Capital movements	-829,255	-1,027,119	-4,925	1,323,173	0	-538,125
Net change in market value	<b>-800,367</b>	<b>-831,181</b>	<b>160,582</b>	<b>2,334,804</b>	<b>0</b>	<b>863,838</b>
<b>Assets at 30 November 2014</b>	<b>7,783,193</b>	<b>39,750,294</b>	<b>15,083,391</b>	<b>96,663,677</b>	<b>659,282</b>	<b>159,939,837</b>
<b>Year-to-date</b>						
<b>Assets at 01 April 2014</b>	<b>10,807,068</b>	<b>39,801,233</b>	<b>12,077,149</b>	<b>86,749,749</b>	<b>614,442</b>	<b>150,049,641</b>
Net investment earnings						
+ Dividends/ Coupons/ interest	254,701	1,770,441	848,311	2,258,566	-	5,132,018
+ Realised/ unrealised gains(losses)	0	705,739	39,861	7,967,122	-	8,712,722
	254,701	2,476,180	888,172	10,225,688	0	13,844,740
Capital movements	-3,278,576	-2,527,119	2,118,070	-311,759	44,840	-3,954,544
Net change in market value	<b>-3,023,875</b>	<b>-50,939</b>	<b>3,006,242</b>	<b>9,913,928</b>	<b>44,840</b>	<b>9,890,196</b>
<b>Assets at 30 November 2014</b>	<b>7,783,193</b>	<b>39,750,294</b>	<b>15,083,391</b>	<b>96,663,677</b>	<b>659,282</b>	<b>159,939,837</b>

30 November 2014

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## Allocation of capital & investment strategy

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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.

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## 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.



### Purpose

	Liquidity Certainty Short-term	Income Reduced volatility Medium-term	Inflation protection Growth Long-term	Current grants Intergenerational Equity
Benchmark (\$)	\$10.00m	\$50.00m	\$99.94m	\$159.94 m
Benchmark (%)	6.3%	31.3%	62.5%	100.0%

### Current assets vs benchmark

Current assets	\$12.17 m	\$50.45 m	\$97.32 m	\$159.94 m
Benchmark assets	<u>\$10.00 m</u>	<u>\$50.00 m</u>	<u>\$99.94 m</u>	<u>\$159.94 m</u>
Excess (shortfall)	\$2.17 m	\$0.45 m	-\$2.62 m	\$0.00 m

### Current assets vs capital base

Current assets	\$12.17 m	\$50.45 m	\$97.32 m	\$159.94 m
Capital base	<u>\$10.00 m</u>	<u>\$50.00 m</u>	<u>\$82.73 m</u>	<u>\$142.73 m</u>
Excess (shortfall)	\$2.17 m	\$0.45 m	\$14.59 m	\$17.21 m

### Current assets vs 125% x capital base

Current assets	\$12.17 m	\$50.45 m	\$97.32 m	\$159.94 m
Target assets	<u>\$10.00 m</u>	<u>\$50.00 m</u>	<u>\$118.41 m</u>	<u>\$178.41 m</u>
Excess (shortfall)	\$2.17 m	\$0.45 m	-\$21.09 m	-\$18.47 m

### Notes:

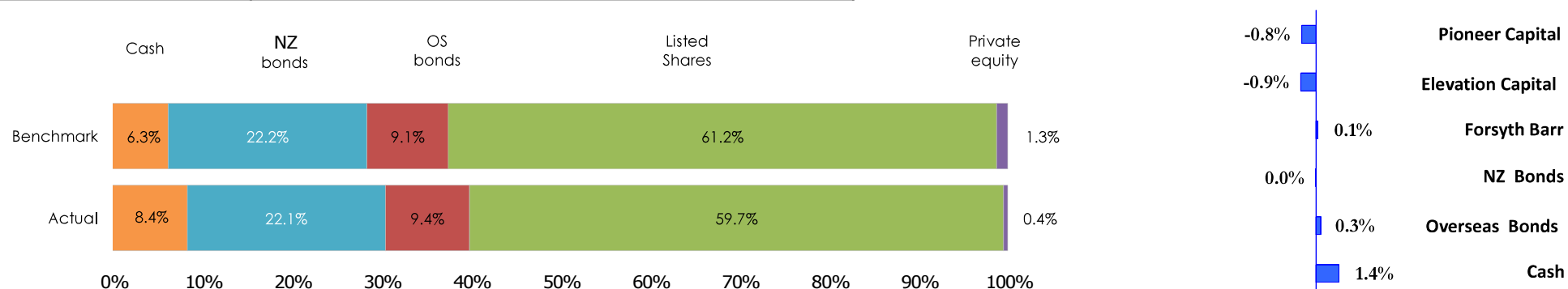
1. For the target asset levels, the cash holdings should include the undistributed distribution a/c.
2. The allocation to bonds is below the optimal level for 125% x Capital base.
3. The allocation to shares/property is below the benchmark level on each basis, reflecting the general downturn in the markets over the last 6 years.
4. The capital base (i.e. \$142.73m) 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	
						\$	%
<b>Growth</b>							
<b>Listed shares</b>							
Elevation Capital	\$46,515,762			\$912,732	\$47,428,494	\$47.43m	29.7%
Forsyth Barr	\$48,900,310			\$112,702	\$49,013,013	\$49.01m	30.6%
<b>Private equity</b>							
Pioneer Capital		\$659,282			\$659,282	\$0.66m	0.4%
						<b>\$97.10m</b>	<b>60.7%</b>
<b>Income</b>							
NZ bonds			\$35,367,955		\$35,367,955	\$35.37m	22.1%
Overseas bonds			\$15,083,391		\$15,083,391	\$15.08m	9.4%
						<b>\$50.45m</b>	<b>31.5%</b>
<b>Cash</b>							
Trust				\$7,783,193	\$7,783,193	\$7.78m	4.9%
Forsyth Barr Esam Cushing				\$4,382,339	\$4,382,339	\$4.38m	2.7%
FX Overlay1				\$222,171	\$222,171	\$0.22m	0.1%
						<b>\$12.39m</b>	<b>7.7%</b>
<b>Total</b>	\$95,416,073	\$659,282	\$50,451,346	\$13,413,136	\$159,939,837		
<b>Current allocation (%)</b>	<b>59.7%</b>	<b>0.4%</b>	<b>31.5%</b>	<b>8.4%</b>	<b>100.0%</b>		
<b>Difference from benchmark</b>	<b>-1.6%</b>	<b>-0.8%</b>	<b>0.3%</b>	<b>2.1%</b>			
<b>Benchmark</b>	<b>61.2%</b>	<b>1.3%</b>	<b>31.3%</b>	<b>6.3%</b>	<b>100.0%</b>		
<b>Indices used for comparison</b>	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

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

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

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## 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 34.

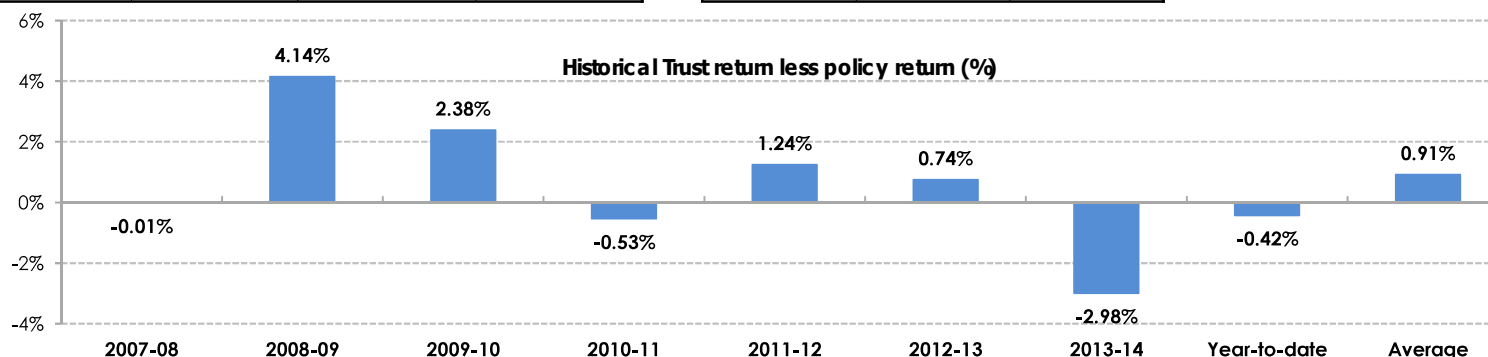
For the year-to-date, the Trust has achieved a total return of 9.36%, which was 0.42% below the policy return. The 0.42% represents a Trust return of \$0.73m, below what the policy return achieved.

	Trust return (%)	Policy return (%)	Difference (%)
<b>November-14</b>	0.88%	1.49%	(0.61%)
<b>Year-to-date</b>	9.36%	9.78%	(0.42%)
<b>March-15</b>			
<b>February-15</b>			
<b>January-15</b>			
<b>December-14</b>			
<b>November-14</b>	0.88%	1.49%	(0.61%)
<b>October-14</b>	1.32%	0.97%	0.35%
<b>September-14</b>	0.00%	1.17%	(1.17%)
<b>August-14</b>	1.57%	2.23%	(0.65%)
<b>July-14</b>	0.68%	0.48%	0.20%
<b>June-14</b>	0.00%	0.05%	(0.05%)
<b>May-14</b>	1.48%	1.92%	(0.43%)
<b>April-14</b>	2.01%	1.10%	0.91%

Trust (\$m)	Policy (\$m)	Difference (\$m)
\$1.40	\$2.38	(\$0.98)
\$13.84	\$14.57	(\$0.73)
\$1.40	\$2.38	(\$0.98)
\$2.07	\$1.54	\$0.53
\$1.71	\$1.84	(\$0.13)
\$2.40	\$3.41	(\$1.01)
\$1.04	\$0.74	\$0.30
(\$0.06)	\$0.08	(\$0.14)
\$2.27	\$2.93	(\$0.66)
\$3.01	\$1.65	\$1.36

## Trust performance - Historical

	Trust (%)	Policy (%)	Difference (%)
<b>Year-to-date</b>	9.36%	9.78%	(0.42%)
<b>2013-14</b>	6.26%	9.24%	(2.98%)
<b>2012-13</b>	10.61%	9.87%	0.74%
<b>2011-12</b>	(0.39%)	(1.63%)	1.24%
<b>2010-11</b>	7.44%	7.97%	(0.53%)
<b>2009-10</b>	26.25%	23.88%	2.38%
<b>2008-09</b>	(8.51%)	(12.65%)	4.14%
<b>2007-08</b>	(2.43%)	(2.42%)	(0.01%)
<b>Since inception (% p.a.)</b>	7.27%	6.36%	0.91%



**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.

Split of policy return:	Total	Elevation Capital	Forsyth Barr
Share market movement	\$2,176,791	\$909,443	\$1,267,347
Currency movement (50% hedged)	(\$809,483)	(\$459,838)	(\$349,645)
<b>Policy return</b>	<b>\$1,367,308</b>	<b>\$449,606</b>	<b>\$917,702</b>
Currency management	(\$514,381)	(\$314,982)	(\$199,399)
<b>Total return</b>	<b>\$852,926</b>	<b>\$134,623</b>	<b>\$718,303</b>

### Note:

The return on the combined Forsyth Barr and Elevation Capital managed shares for the month was \$557,825. This can be split between the market movement and the movement in the NZ dollar.

Market movement	\$2,176,791
Exchange rate movement	(\$1,618,966)
	<u>\$557,825</u>

The Trust's policy is to be 50% hedged, therefore the policy return for the month is \$1,367,308, i.e. the market movement and 50% of the exchange rate movement. The total return from the listed shares was \$852,926. Therefore the hedging management policy, to depart from the neutral position, declined -\$514,381 over the month.

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

Return from:	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	YTD 2014/15
Share markets	\$1,664,634	\$643,193	\$524,764	(\$657,055)	\$917,393	(\$906,691)	\$716,364	\$2,176,791					\$5,079,393
Application of 50% neutral policy	\$370,293	\$355,157	(\$853,409)	\$759,170	\$456,334	\$1,747,964	(\$50,179)	(\$809,483)					\$1,975,846
= Benchmark return	<b>\$2,034,927</b>	<b>\$998,350</b>	<b>(\$328,645)</b>	<b>\$102,114</b>	<b>\$1,373,727</b>	<b>\$841,273</b>	<b>\$666,185</b>	<b>\$1,367,308</b>					<b>\$7,055,239</b>
Impact movement of policy from 50%	(\$50,549)	\$277,901	(\$50,135)	\$167,023	\$295,453	\$183,885	\$230,250	(\$514,381)					\$539,448
= Total return	<b>\$1,984,378</b>	<b>\$1,276,251</b>	<b>(\$378,780)</b>	<b>\$269,138</b>	<b>\$1,669,180</b>	<b>\$1,025,158</b>	<b>\$896,435</b>	<b>\$852,926</b>					<b>\$7,594,686</b>

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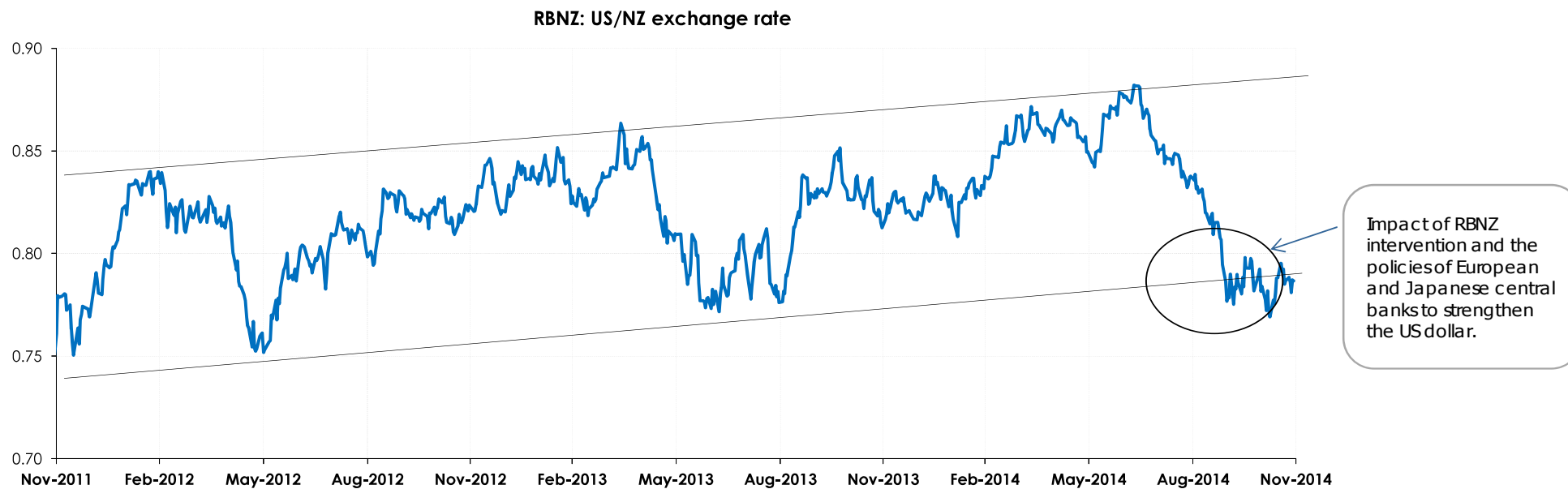
## Hedging levels

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 November 2014, the individual currency target hedging levels were:

	AUD	EURO	GBP	USD
<b>Hedging level</b>	0%	50%	50%	50%

On 30 November 2014, the RBNZ US\$/NZ\$ exchange rate was 0.7866. Since 30 November 2011 it has been:



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## Manager performance

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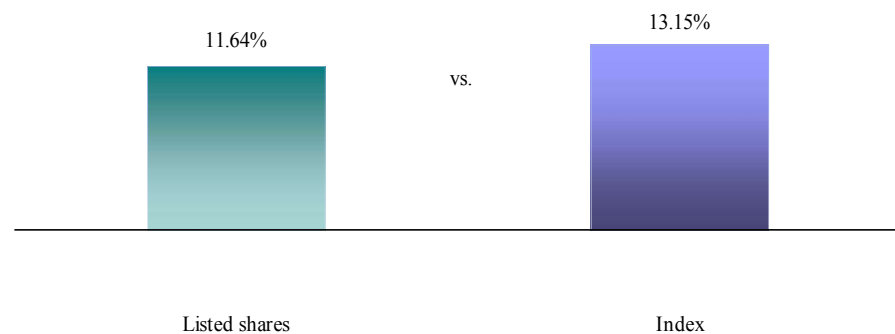
This section summarises performance by manager relative to the benchmark indices along with the attribution analysis.

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## Last 12 months' performance relative to market benchmark returns

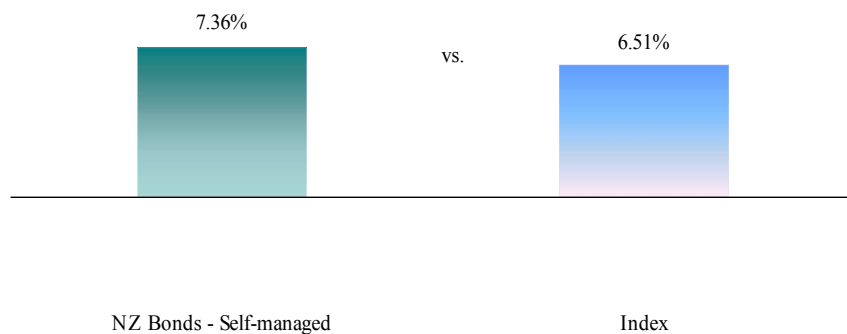
Details of the indices are on page 34

### Listed shares



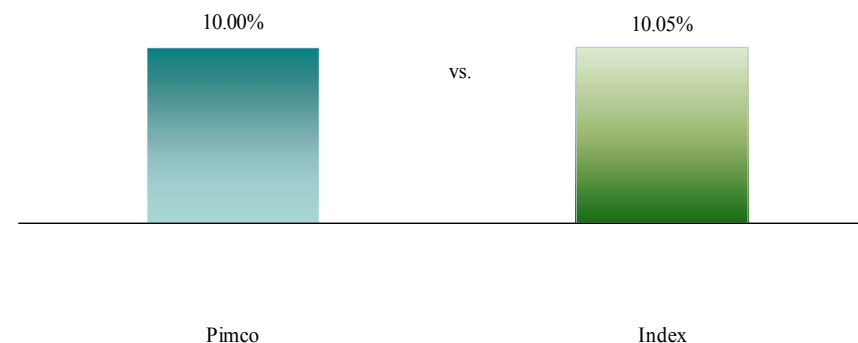
X	X	X	✓	✓	X	X	✓	X	X	✓	X
Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14

### NZ bonds - Self-managed



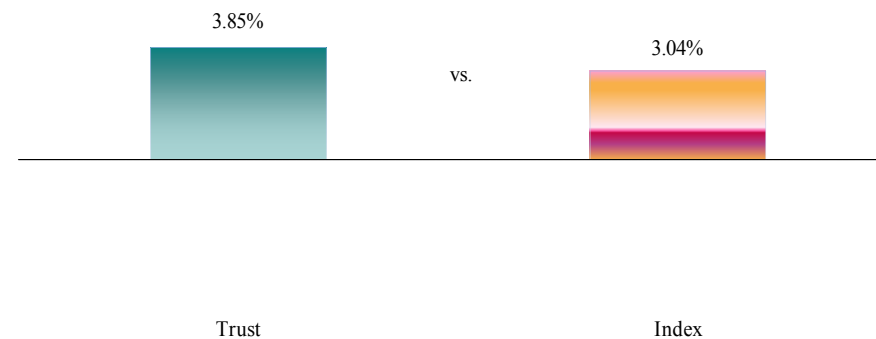
✓	X	X	X	✓	✓	✓	✓	✓	✓	✓	X
Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14

### OS bonds - Pimco



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

### Cash - Self-managed



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

30 November 2014

### 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: -0.79%								
Benchmark return	+	Asset allocation	+	Stock selection	+	Timing effect	=	Actual return
10.74%	+	-0.11%	+	2.03%	+	-2.71%	=	9.95%

### 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: -0.42%								
Benchmark return	+	Asset allocation	+	Stock selection	+	Timing effect	=	Actual return
9.78%	+	-0.10%	+	2.53%	+	-2.85%	=	9.36%

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

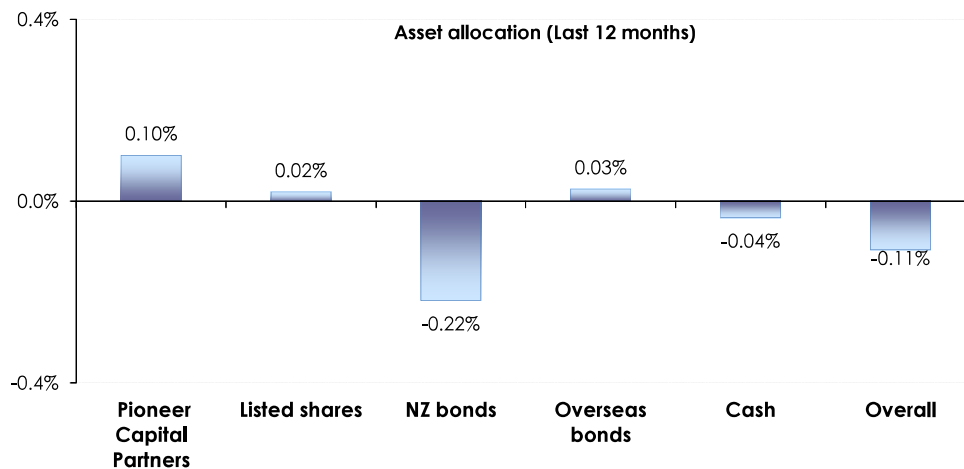
30 November 2014

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".

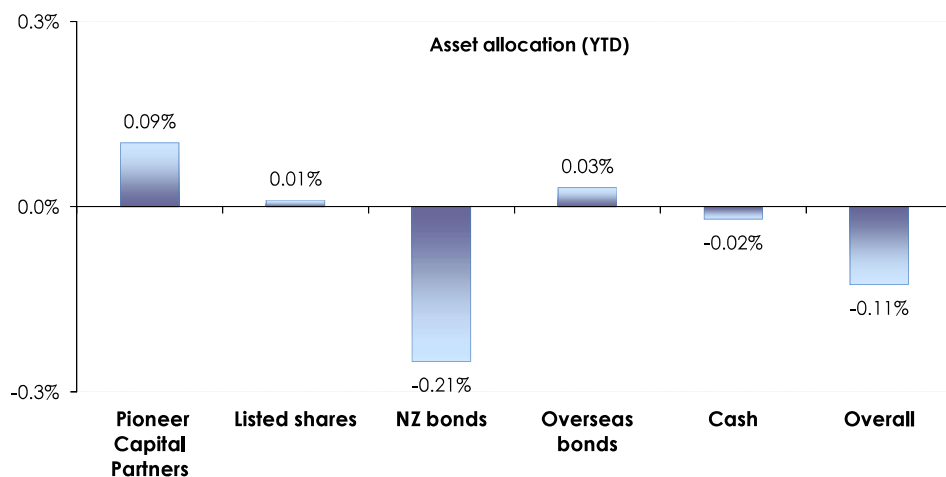
### Asset allocation Attribution analysis

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

#### Last 12 months'

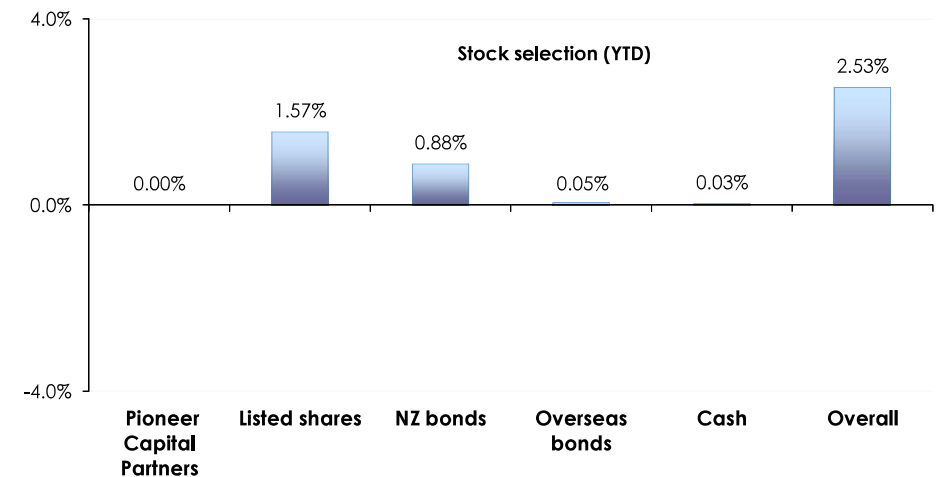
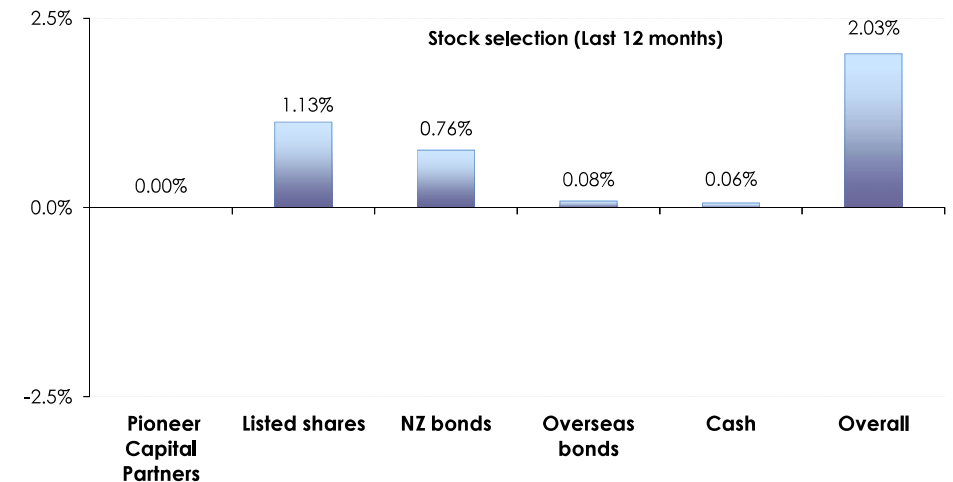


#### Year-to-date



### Stock selection Attribution analysis

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

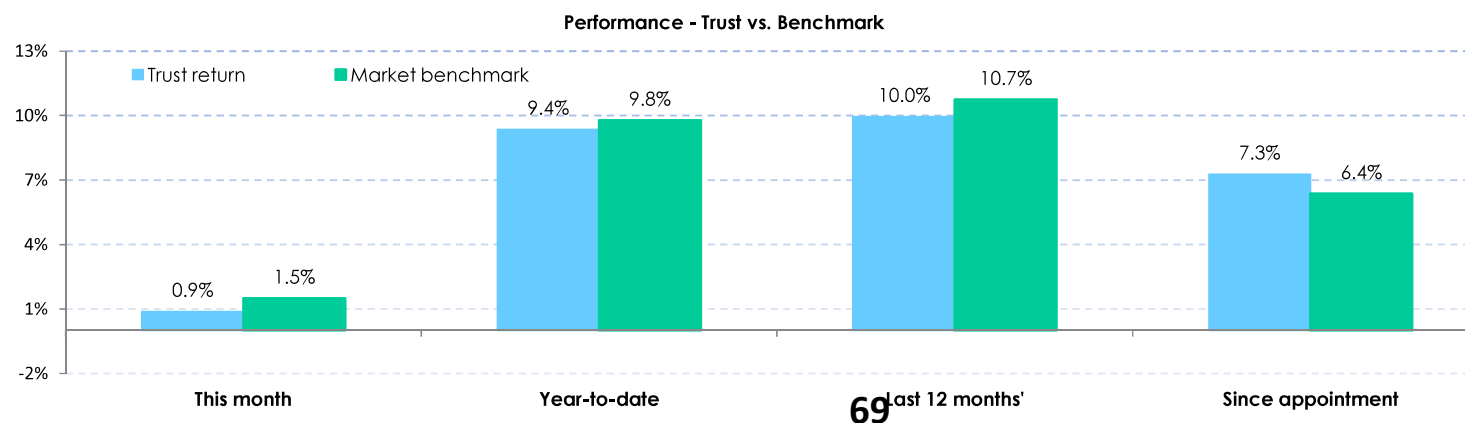


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## Performance by manager

	This month (%)			Year-to-date (%)			Last 12 months' (%)			Since appointment (%p.a.)		
	returns			returns			returns			returns		
	Actual	Benchmark	Value added	Actual	Benchmark	Value added	Actual	Benchmark	Value added	Actual	Benchmark	Value added
<b>Overall Trust return</b>	0.88%	1.49%	-0.61%	9.36%	9.78%	-0.42%	9.95%	10.74%	-0.79%	7.27%	6.36%	0.91%
<b>Total shares</b>	1.06%	1.98%	-0.92%	11.88%	12.95%	-1.07%	11.86%	13.15%	-1.29%	8.14%	6.54%	1.60%
<b>Listed shares</b>	1.06%	1.98%	-0.92%	11.91%	12.95%	-1.04%	11.64%	13.15%	-1.51%	10.61%	15.49%	-4.87%
Elevation Capital (portfolio)	0.47%	1.06%	-0.59%	12.80%	16.19%	-3.39%	9.54%	12.94%	-3.40%	7.85%	14.76%	-6.90%
Shares	0.18%	1.06%	-0.88%	13.50%	16.19%	-2.70%	9.78%	12.94%	-3.16%	7.30%	14.76%	-7.46%
Liquidity	-0.79%			1.94%			2.43%			2.97%		
Forsyth Barr (portfolio)	1.65%	1.06%	0.59%	14.54%	16.19%	-1.66%	10.09%	12.94%	-2.85%	12.41%	14.76%	-2.34%
Shares	1.33%	1.06%	0.27%	14.63%	16.19%	-1.57%	10.01%	12.94%	-2.93%	11.10%	14.76%	-3.66%
Liquidity	0.17%			-0.87%			-0.78%			0.41%		
<b>Currency hedging</b>	0.31%	0.92%	-0.61%	-1.61%	-2.97%	1.36%	0.91%	-0.01%	0.93%	0.97%	0.41%	0.57%
<b>Pioneer Capital Partners</b>	0.00%			0.00%			0.00%			0.00%		
<b>NZ bonds - Self-managed</b>	0.49%	0.55%	-0.06%	6.33%	4.95%	1.38%	7.36%	6.51%	0.85%	7.68%	6.80%	0.88%
<b>OS bonds - Pimco</b>	1.11%	1.43%	-0.32%	7.16%	7.60%	-0.44%	10.00%	10.05%	-0.06%	6.05%	6.41%	-0.36%
<b>Self-managed - cash</b>	0.35%	0.29%	0.06%	2.52%	2.17%	0.35%	3.85%	3.04%	0.81%	6.08%	5.23%	0.85%

Note: Details of the benchmark indices are on page 34.



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## Listed shares portfolio

**Elevation Capital - Christopher Swasbrook**

**Forsyth Barr - Richard Burton**

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The objective of the portfolio is to provide:

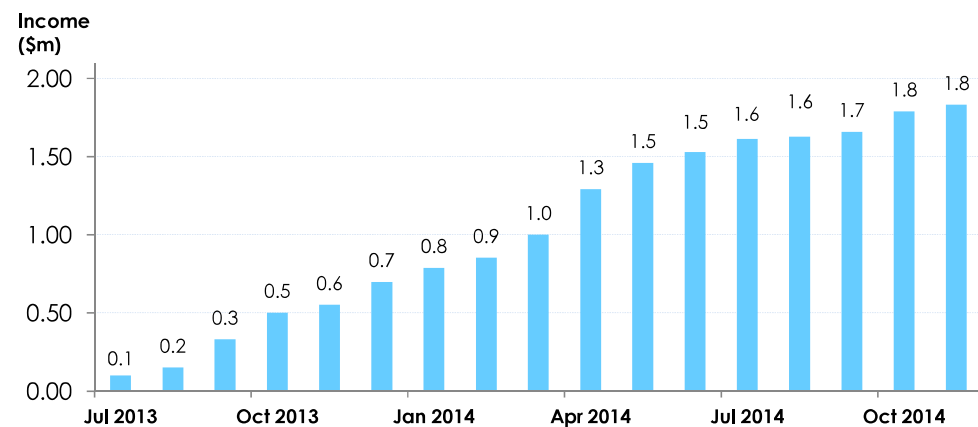
- an income stream of 4.0% of the value of the portfolio each year, and
- a growing level of dividend income in absolute terms over rolling 1 year periods, and
- an increasing portfolio value over a five year period.

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## Summary of Income

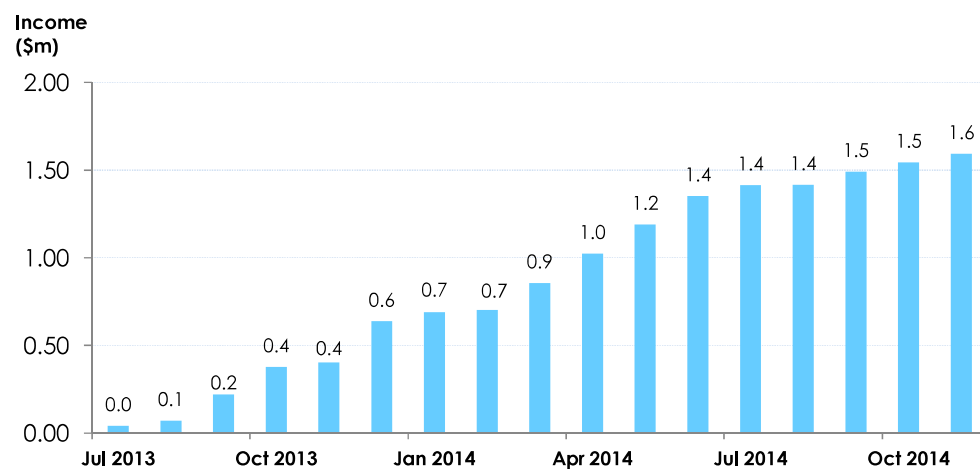
Cumulative dividend income for 12 month periods to month shown (\$m)

### Elevation Capital



Assets	\$47,428,494
Distributions paid out since appointment	\$2,293,983

### Forsyth Barr

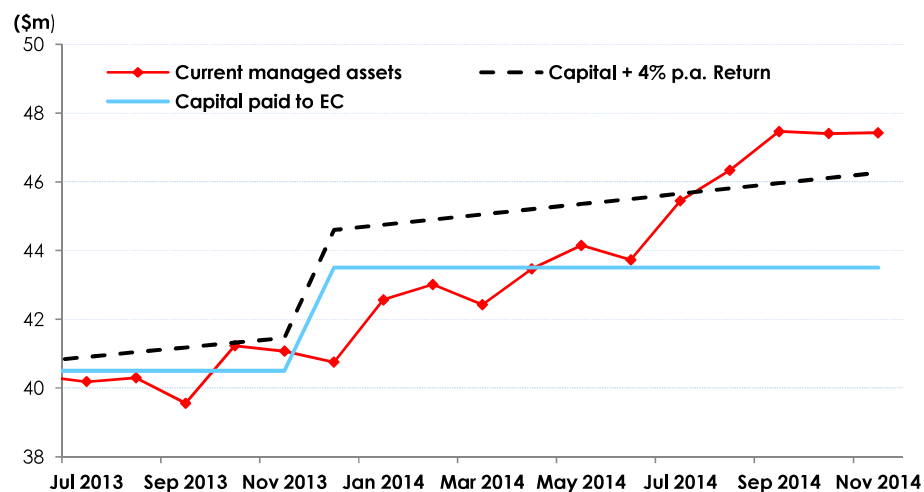


Assets	\$49,013,013
Distributions paid out since appointment	\$2,030,784

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## Growth in portfolio

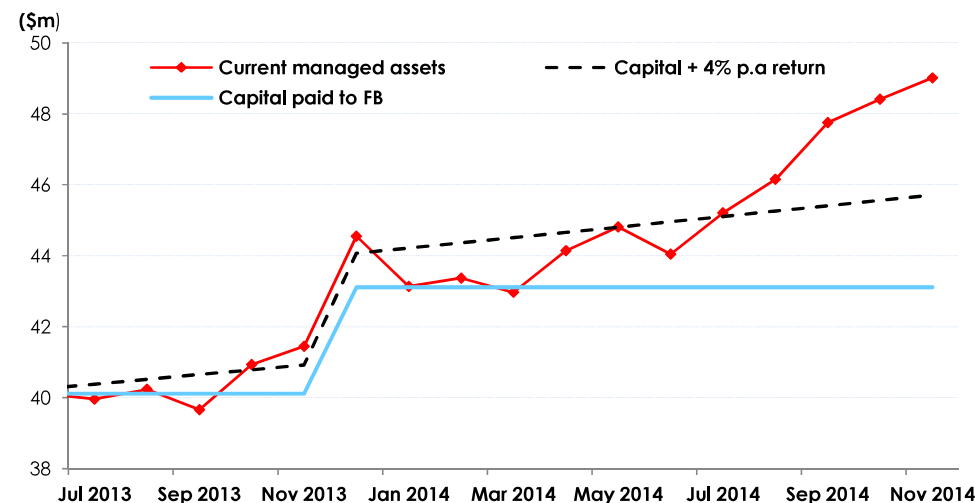
### Elevation Capital



	Financial year to date	Since appointment
Value start of the year	\$38,701,167	-
New capital given to manager	-	\$43,500,000
Dividends received/earned	\$1,383,498	\$2,384,267
Distributions paid to Trust	(\$1,099,709)	(\$2,293,983)
Market movement	\$5,491,645	\$3,587,866
Currency movement	\$2,039,160	(\$662,387)
Cash	\$912,732	\$912,732
<b>Value at 30 Nov 2014</b>	<b>\$47,428,494</b>	<b>\$47,428,494</b>

Note: Elevation Capital has also returned \$2.29m to the trust since appointment.

### Forsyth Barr



	Financial year to date	Since appointment
Value start of the year	\$42,357,876	-
New capital given to manager	-	\$43,113,670
Dividends received/earned	\$1,138,883	\$1,994,474
Distributions paid to Trust	(\$917,471)	(\$2,030,784)
Market movement	\$4,408,491	\$6,545,291
Currency movement	\$1,912,532	(\$722,342)
Cash	\$112,702	\$112,702
<b>Value at 30 Nov 2014</b>	<b>\$49,013,013</b>	<b>\$49,013,013</b>

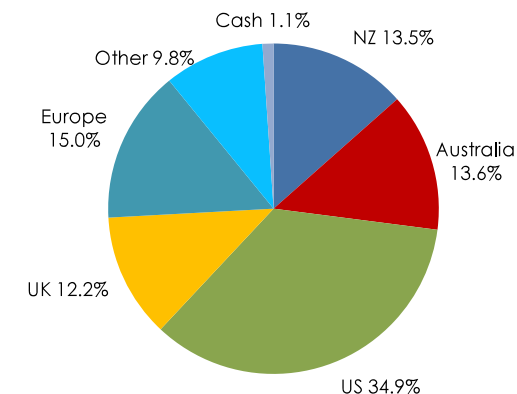
Note: Forsyth Barr has also returned \$2.03m to the trust since appointment.

Note: The difference between dividends & interest earned, and what was paid out, is the exchange rates used.

30 November 2014

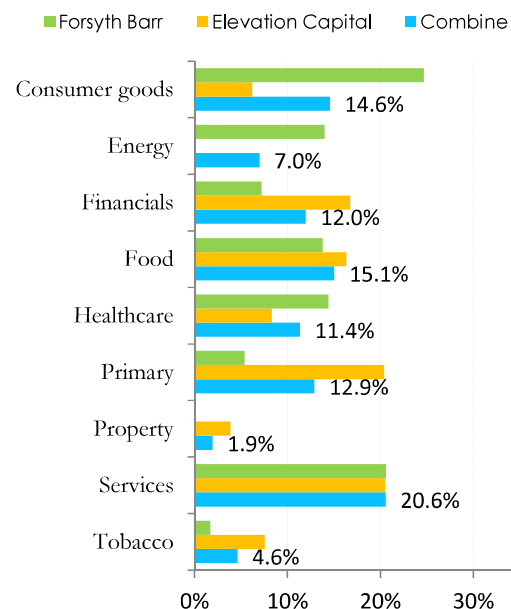
## Geographic split

Country of listing	No. of holdings			Value of holdings			%
	EC	FB	Total	EC	FB	Total	
NZ	5	11	16	3,919,970	9,053,573	12,973,543	13.5%
Australia	11	6	17	8,604,309	4,479,926	13,084,235	13.6%
US	18	22	40	14,439,847	19,262,864	33,702,711	34.9%
UK	7	7	14	5,904,621	5,832,123	11,736,744	12.2%
Europe	7	10	17	5,957,994	8,491,844	14,449,838	15.0%
Other	10	2	12	7,689,022	1,779,981	9,469,003	9.8%
Shares	58	58	116	46,515,762	48,900,310	95,416,073	98.9%
Cash				912,732	112,702	1,025,434	1.1%
<b>Total</b>				<b>47,428,494</b>	<b>49,013,013</b>	<b>96,441,507</b>	<b>100.0%</b>

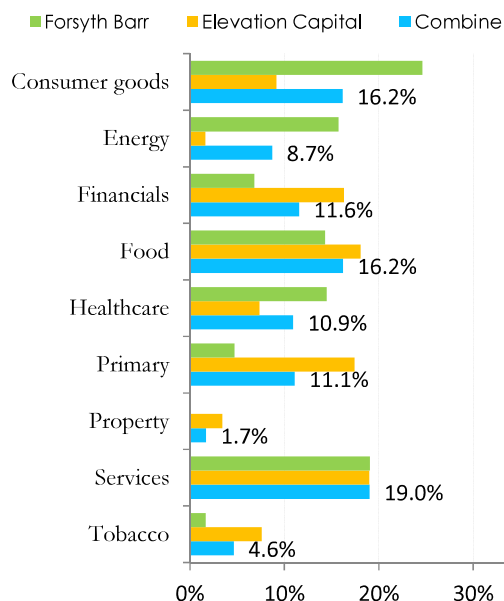


## Industry split

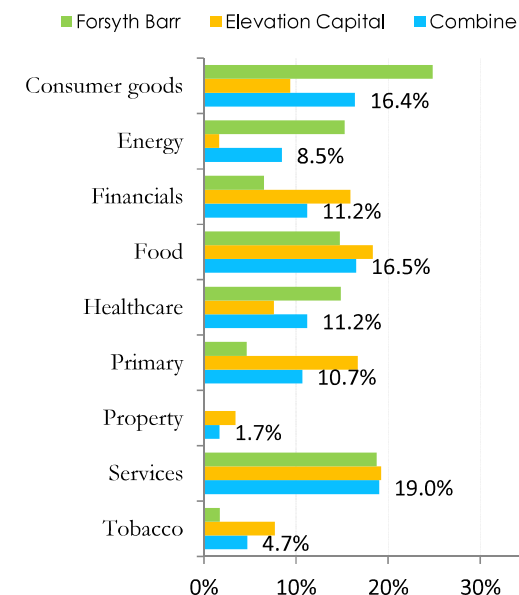
Start of the year 31 Mar 2014



Start of the month 31 Oct 2014



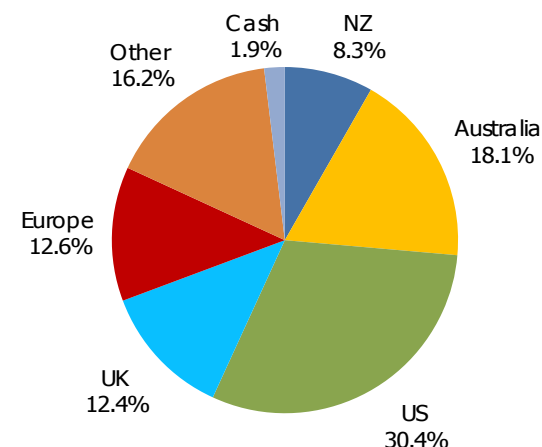
End of the month 30 Nov 2014



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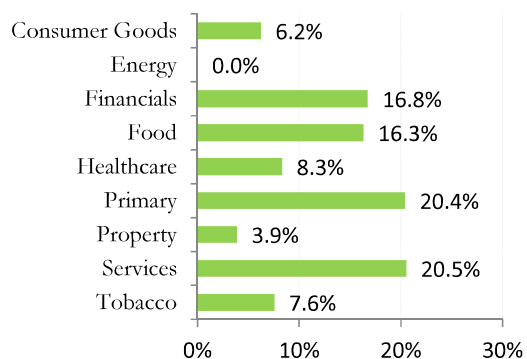
### Geographic split

Country of listing	No. of holdings	\$	%
NZ	5 shares	3,919,970	8.3%
Australia	11 shares	8,604,309	18.1%
US	18 shares	14,439,847	30.4%
UK	7 shares	5,904,621	12.4%
Europe	7 shares	5,957,994	12.6%
Other	10 shares	7,689,022	16.2%
<b>Shares</b>	<b>58 shares</b>	<b>46,515,762</b>	<b>98.1%</b>
<b>Cash</b>		<b>912,732</b>	<b>1.9%</b>
<b>Total</b>		<b>47,428,494</b>	<b>100.0%</b>

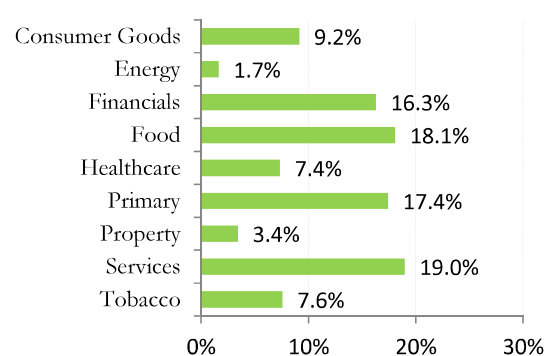


### Industry split

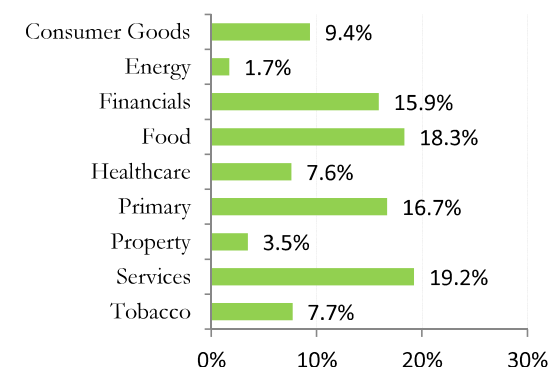
Start of the year 31 Mar 2014



Start of the month 31 Oct 2014



End of the month 30 Nov 2014



### Concentration risks:

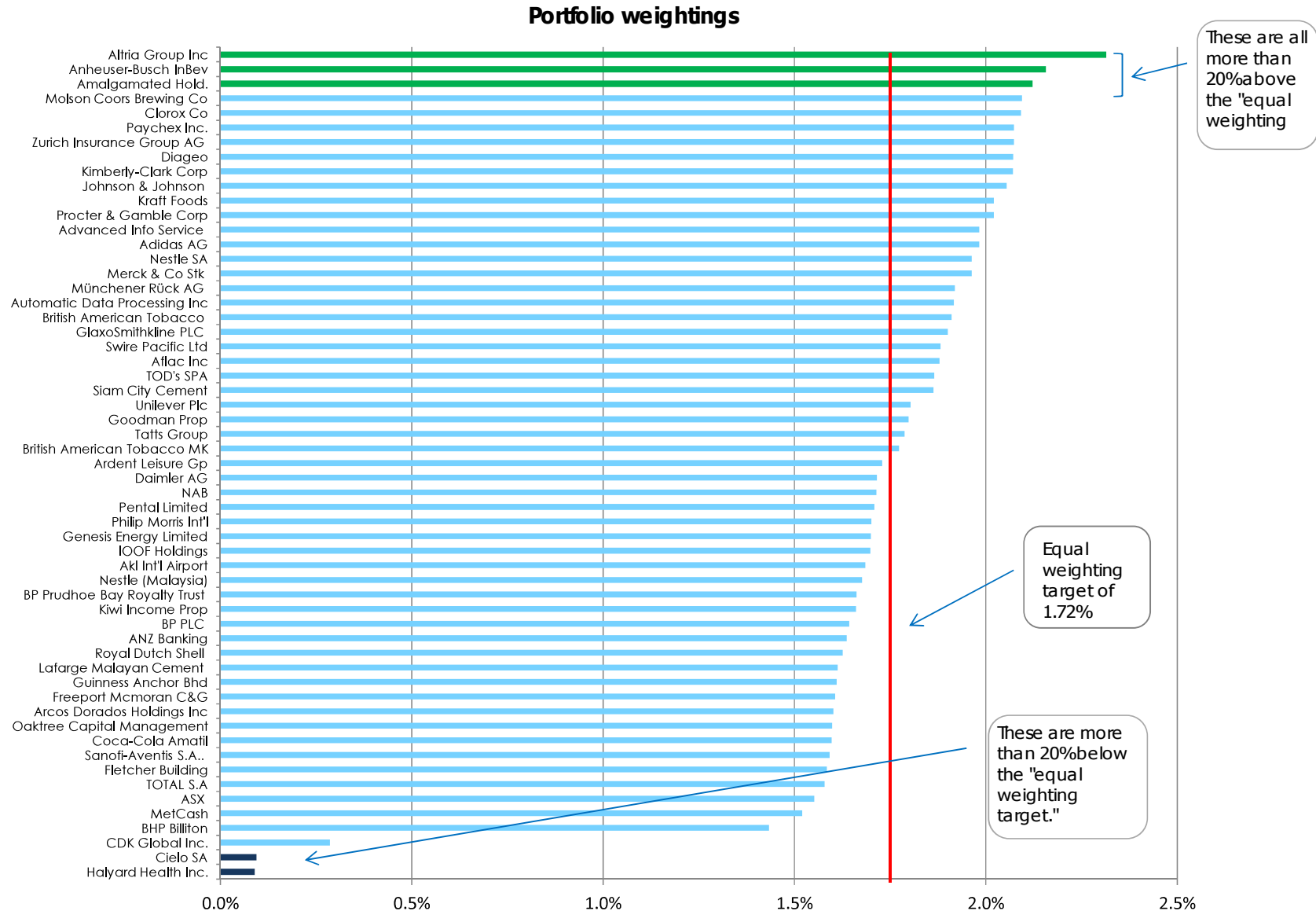
Shares that are 20% or more above the "equal weighting target" of \$817,733

[Amalgamated Holdings](#) [Altria Group Inc](#) [Anheuser-Busch InBev](#)

Shares that are 20% or less below the "equal weighting target" of \$817,733

[Halyard Health Inc.](#) [Cielo SA](#)

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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	6,697,804	-2,806,617	1,884,247	2,039,160	46,515,762	1,383,498
Liquidity (cash)	3,725,233	1,000,000	-3,880,927	-43,060	111,487	912,732	36,771
Overall asset	42,426,400	7,697,804	-6,687,544	1,841,187	2,150,647	47,428,494	1,420,269

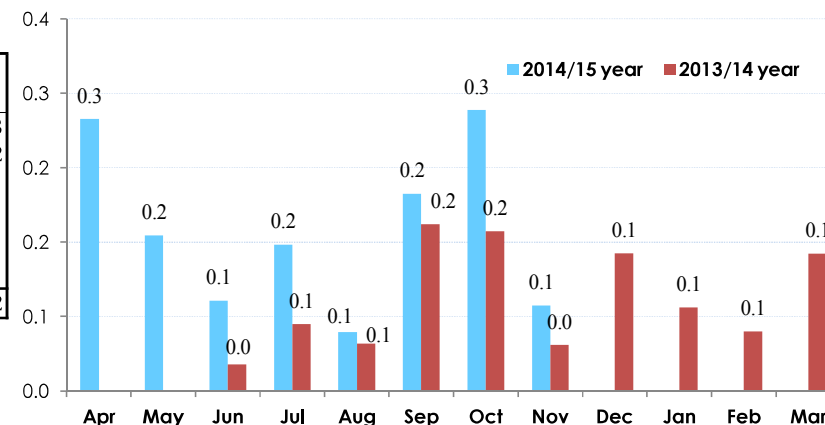
	During the month						
	Values			Gain/loss		Values	
	Start	Buys	Sells	Market	Currency	End	Net dividend
NZ	3,926,434	-	-	-6,464	-	3,919,970	-
AUST	9,128,444	-	-	-160,662	-363,473	8,604,309	-
US	14,159,729	39,791	-	359,262	-118,935	14,439,847	74,733
UK	5,883,740	-	-	202,179	-181,298	5,904,621	-
Europe	5,713,722	-	-	328,212	-83,940	5,957,994	8,016
Other	7,674,134	-	-	186,917	-172,028	7,689,022	9,131
Overall shares	46,486,204	39,791	-	909,443	-919,676	46,515,762	91,880
Liquidity (cash)	920,358	-	1,907	-494	-9,039	912,732	2,291
Overall asset	47,406,562	39,791	1,907	908,950	-928,715	47,428,494	94,170

Returns		
Month	Ytd	Since Inception
-0.2%	8.3%	10.6%
-5.7%	7.6%	2.0%
2.2%	19.8%	14.5%
0.4%	7.8%	5.8%
4.4%	5.1%	11.0%
0.3%	21.8%	3.6%
0.2%	13.5%	7.3%
-0.8%	1.9%	3.0%
0.2%	12.8%	7.9%

## Cash holdings

Currencies	Ex rate 31 Oct 14	Start values (local)	End values (local)	Ex rate 30 Nov 14	Currency gain/loss	End values (NZ\$)
New Zealand dollars	1.0000	679,135	679,548	1.0000	-	679,548
Australian dollars	0.8854	206,948	206,744	0.9228	-9,465	224,052
Swiss Franc	0.7501	-	-	0.7584	-	-
Euro	0.6219	-	-	0.6307	-	-
Pound Sterling	0.4869	-	-	0.5019	-	-
US dollars	0.7789	5,823	7,171	0.7853	426	9,131
					-9,039	912,732

## Year-to-date income (\$m)



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Code	Company	Industry	Average purchase cost <sup>1</sup>	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	
AIA	Akl Int'l Airport	Services	3.00	202,500	202,500	3.87	3.87	783,675	-	-	0	-	783,675	-	0.0%	0.6%	19.2%
FBU	Fletcher Building	Primary	8.32	90,000	90,000	8.60	8.19	774,000	-	-	-36,900	-	737,100	-	-4.8%	-11.2%	3.2%
GNE	Genesis Energy Limited	Energy	1.78	383,711	383,711	2.01	2.06	771,259	-	-	19,186	-	790,445	-	2.5%	43.7%	43.7%
GMT	Goodman Prop	Property	1.07	750,000	750,000	1.10	1.12	825,000	-	-	11,250	-	836,250	-	1.4%	19.6%	6.4%
KIP	Kiwi Inome Prop	Property	1.08	750,000	750,000	1.03	1.03	772,500	-	-	-0	-	772,500	-	0.0%	4.4%	5.9%
NZ subtotal in \$ooo's		5 shares				-	-	3,926	-	-	-6	-	3,920	-	-0.2%	8.3%	10.6%
AHD	Amalgamated Holdings	Services	10.04	80,000	80,000	11.32	12.33	905,405	-	-	122,889	-41,678	986,616	-	9.0%	36.5%	19.4%
ANZ	ANZ Banking	Financials	33.02	22,000	22,000	37.84	34.59	832,439	-	-	-39,261	-32,148	761,030	-	-8.6%	0.4%	6.6%
BHP	BHP Billiton	Primary	40.61	19,900	19,900	38.36	33.51	763,318	-	-	-68,330	-28,169	666,820	-	-12.6%	-12.3%	-8.9%
AAD	Ardent Leisure Gp	Services	2.03	245,000	245,000	3.54	3.28	866,155	-	-	-27,673	-33,985	804,497	-	-7.1%	27.9%	44.7%
ASX	ASX	Financials	43.76	18,500	18,500	40.65	39.01	752,036	-	-	209	-30,489	721,756	-	-4.0%	3.8%	-5.4%
CCL	Coca-Cola Amatil	Food	14.09	75,000	75,000	10.33	9.91	775,117	-	-	-847	-31,382	742,888	-	-4.2%	-11.4%	-20.8%
IFL	IOOF Holdings	Financials	9.60	80,000	80,000	10.20	9.87	815,948	-	-	7,229	-33,364	789,813	-	-3.2%	10.7%	4.7%
MTS	MetCash	Food	4.14	250,000	250,000	3.20	2.83	799,119	-	-	-62,122	-29,871	707,125	-	-11.5%	4.5%	-21.4%
NAB	NAB	Financials	35.79	22,575	22,575	39.52	35.33	892,189	-	-	-60,941	-33,691	797,556	-	-10.6%	-3.9%	3.1%
PTL	Pental Limited	Consumer Goods	0.04	22,000,000	1,466,666	0.04	0.54	844,864	-	-	-16,566	-33,572	794,726	-	-5.9%	-4.5%	-4.5%
TTS	Tatts Group	Services	3.72	225,000	225,000	3.92	3.70	881,855	-	-	-15,248	-35,124	831,482	-	-5.7%	24.4%	1.6%
AUST subtotal in \$ooo's		11 shares			ex-rate	0.8854	0.9228	9,128	-	-	-161	-363	8,604	-	-5.7%	7.6%	2.0%
MO	Altria Group Inc	Tobacco	44.51	17,000	17,000	60.98	63.31	1,036,718	-	-	48,453	-8,844	1,076,328	-	3.8%	52.3%	31.1%
AFL	Aflac Inc	Financials	69.93	11,500	11,500	77.08	76.00	886,455	-	-	-5,315	-7,181	873,959	-	-1.4%	11.4%	11.4%
ADP	Automatic Data Processing Inc	Services	86.77	8,250	8,250	101.36	108.06	836,227	-	-	62,598	-7,325	891,500	-	6.6%	38.5%	28.1%
ARCO	Arcos Dorados Holdings Inc	Food	11.06	91,000	91,000	7.78	8.19	707,998	-	-	43,228	-6,122	745,104	-	5.2%	-32.6%	-32.9%
BPT	BP Prudhoe Bay Royalty Trust	Primary	114.13	7,500	7,500	107.60	103.07	807,003	-	-	-27,635	-6,352	773,017	-	-4.2%	12.1%	0.2%
CDK	CDK Global Inc.	Services	35.09	2,750	2,750	41.92	48.35	115,275	-	-	18,783	-1,093	132,965	-	15.3%	37.8%	37.8%
CLX	Clorox Co	Primary	104.97	7,650	7,650	126.59	127.21	968,404	-	-	12,818	-8,047	973,176	6,127	1.1%	27.8%	17.0%
FCX	Freeport Mcmoran C&G	Primary	36.45	20,000	20,000	36.05	37.36	721,017	-	-	32,409	-6,195	747,230	6,765	4.6%	1.1%	5.1%
HYH	Halyard Health Inc.	Healthcare	48.06	-	828	-	49.76	-	39,791	-	2,254	-839	41,205	-	3.6%	3.6%	3.6%
JNJ	Johnson & Johnson	Healthcare	106.79	7,000	7,000	137.42	136.52	961,972	-	-	1,528	-7,852	955,648	-	-0.7%	22.9%	21.3%
KMB	Kimberly-Clark Corp	Services	121.56	6,625	6,625	145.87	145.37	966,405	-	-	4,092	-7,413	963,084	39,796	3.9%	22.0%	18.5%
KRFT	Kraft Foods	Food	64.99	12,455	12,455	72.10	75.49	898,026	-	-	49,890	-7,725	940,192	-	4.7%	20.4%	16.6%
MRK	Merck & Co Stk	Healthcare	59.94	12,000	12,000	73.58	76.09	882,937	-	-	37,591	-7,502	913,027	-	3.4%	20.1%	20.4%
OAK	Oaktree Capital Management	Financials	64.86	12,500	12,500	59.70	59.47	746,245	-	-	3,289	-6,187	743,346	9,678	0.9%	-6.7%	-0.7%
PAYX	Paychex Inc.	Services	47.23	16,000	16,000	59.25	60.30	948,004	-	-	24,704	-7,981	964,727	6,581	2.5%	25.6%	22.5%
TAP	Molson Coors Brewing Co	Food	61.48	10,000	10,000	93.62	97.42	936,192	-	-	45,962	-8,004	974,150	-	4.1%	48.8%	39.4%
PM	Philip Morris Int'l	Tobacco	112.93	7,175	7,175	113.43	110.28	813,854	-	-	-16,120	-6,501	791,233	-	-2.8%	22.2%	2.8%
PG	Procter & Gamble Corp	Consumer Goods	97.42	8,305	8,305	111.62	113.18	926,995	-	-	20,733	-7,771	939,957	5,785	2.0%	25.6%	13.6%
US subtotal in \$ooo's		18 shares			ex-rate	0.7789	0.7853	14,160	40	-	359	-119	14,440	75	2.2%	19.8%	14.5%

30 November 2014

Code	Company	Industry	Average purchase cost <sup>1</sup>	During the month										Net dividend	Returns		
				Holdings		Price NZD		Values			Gain/loss		End Values		Month	Ytd	Since Inception
				Start	End	Start	End	Start	Buys	Sells	Market movement	Currency					
BP	BP PLC	Primary	9.00	90,000	90,000	9.12	8.49	820,702	-	-	-32,902	-23,468	764,332	-	-6.9%	-6.4%	-0.3%
BAT	British American Tobacco	Tobacco	68.01	11,920	11,920	71.20	74.54	848,648	-	-	67,201	-27,283	888,567	-	4.7%	21.1%	10.8%
DGE	Diageo	Food	36.12	25,000	25,000	37.16	38.54	929,092	-	-	63,925	-29,582	963,435	-	3.7%	7.3%	7.3%
GSK	GlaxoSmithkline PLC	Healthcare	32.06	30,000	30,000	28.71	29.46	861,368	-	-	49,600	-27,138	883,830	-	2.6%	-0.8%	-3.3%
RDSB	Royal Dutch Shell	Primary	43.01	16,750	16,750	47.39	45.14	793,810	-	-	-14,449	-23,217	756,145	-	-4.7%	2.8%	7.6%
ULVR	UNILEVER PLC	Consumer Goods	51.53	15,725	15,725	50.83	53.34	799,330	-	-	65,238	-25,755	838,813	-	4.9%	10.5%	5.1%
HSBA	HSBC Holdings	Financials	12.59	64,300	64,300	12.92	12.59	830,789	-	-	3,566	-24,855	809,500	-	-2.6%	11.2%	3.6%
UK subtotal in \$ooo's		7 shares		ex-rate		0.4869	0.5019	5,884	-	-	202	-181	5,905	-	0.4%	7.8%	5.8%
ABI	Anheuser-Busch InBev	Food	118.83	6,740	6,740	136.58	148.78	920,559	-	-	96,460	-14,222	1,002,797	8,016	9.8%	24.4%	24.6%
ADS	Adidas AG	Consumer Goods	92.88	9,000	9,000	91.65	102.47	824,891	-	-	110,275	-12,975	922,191	-	11.8%	11.4%	11.4%
DAI	Daimler AG	Services	78.00	7,500	7,500	97.88	106.41	734,105	-	-	75,229	-11,229	798,105	-	8.7%	0.2%	25.4%
MUV	Münchener Rück AG	Financials	236.91	3,420	3,420	246.70	261.00	843,710	-	-	61,471	-12,559	892,622	-	5.8%	6.7%	9.6%
SAN	Sanofi-Aventis S.A..	Healthcare	136.74	6,045	6,045	118.01	122.46	713,366	-	-	37,326	-10,416	740,276	-	3.8%	4.0%	-6.1%
SA	TOTAL S.A	Primary	63.74	10,500	10,500	77.03	69.94	808,816	-	-	-64,158	-10,332	734,326	-	-9.2%	-6.9%	6.8%
TOD	TOD's SPA	Consumer Goods	127.82	7,600	7,600	114.25	114.17	868,275	-	-	11,610	-12,208	867,676	-	-0.1%	-13.1%	-13.1%
Europe subtotal in \$ooo's		7 shares		ex-rate		0.6219	0.6307	5,714	-	-	328	-84	5,958	8	4.4%	5.1%	11.0%
ADVANTH	Advanced Info Service	Services	10.42	100,000	100,000	9.41	9.22	941,130	-	-	-3,938	-14,890	922,302	-	-2.0%	21.2%	-9.0%
ROTHMK	British American Tobacco MK	Tobacco	24.06	31,000	31,000	26.91	26.61	834,101	-	-	21,107	-30,331	824,877	9,131	0.0%	30.0%	11.9%
LMC.MK	Lafarge Malayan Cement	Primary	4.02	200,000	200,000	3.90	3.75	780,351	-	-	-3,121	-27,300	749,929	-	-3.9%	20.2%	-2.1%
NESZ.MK	Nestle (Malaysia)	Food	26.85	30,200	30,200	26.53	25.83	801,264	-	-	7,070	-28,392	779,942	-	-2.7%	13.6%	-0.9%
NESN	Nestle SA	Food	83.77	9,600	9,600	92.59	95.13	888,841	-	-	34,555	-10,106	913,291	-	2.8%	12.4%	10.4%
19.HK	Swire Pacific Ltd	Services	14.70	50,000	50,000	16.84	17.50	841,846	-	-	40,561	-7,187	875,220	-	4.0%	36.8%	16.2%
ZURN	Zurich Insurance Group AG	Financials	332.54	2,425	2,425	383.95	397.81	931,076	-	-	44,291	-10,675	964,692	-	3.6%	21.1%	18.2%
CIEL3	Cielo SA	Financials	16.15	2,000	2,000	20.22	21.64	40,448	-	-	4,724	-1,895	43,277	-	7.0%	23.5%	32.0%
GAB.MK	Guinness Anchor Bhd	Food	6.24	150,000	150,000	4.98	4.99	746,796	-	-	29,263	-27,259	748,800	-	0.3%	1.9%	-15.3%
SCGC.TB	Siam City Cement	Primary	16.08	52,500	52,500	16.54	16.51	868,281	-	-	12,404	-13,993	866,693	-	-0.2%	38.5%	-8.4%
Other subtotal in \$ooo's		10 shares						7,674	-	-	187	-172	7,689	9	0.3%	21.8%	3.6%
Overall shares in \$ooo's		58 shares		26,404	5,872			46,486	40	-	909	-920	46,516	92	0.2%	13.5%	7.3%
Liquidity in \$ooo's								920	-	2	-0	-9	913	2	-0.8%	1.9%	3.0%
Overall asset in \$ooo's								47,407	40	2	909	-929	47,428	94	0.2%	12.8%	7.9%

Note: <sup>1</sup> "Average purchase cost" figures are since inception.

<sup>2</sup> Cielo SA received bonus shares in April 2014 of \$658.

<sup>3</sup> Auckland Airport had a reduction in shares held during April, for which the trust received a capital repayment of \$77,175.

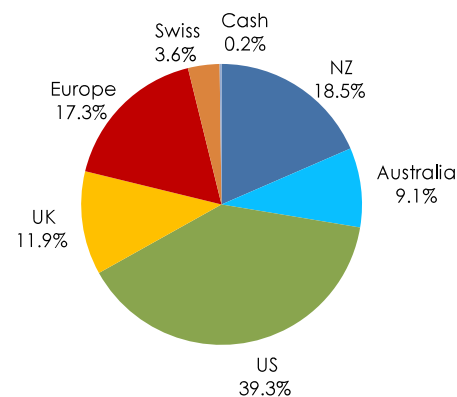
<sup>4</sup> Mighty River Power shares were sold out during October 2014.

<sup>5</sup> Pental Limited shares were consolidated in a ratio of 1:15 during November 2014.

30 November 2014

### Geographic split

Country of listing	No. of holdings	\$	%
NZ	11 shares	9,053,573	18.5%
Australia	6 shares	4,479,926	9.1%
US	22 shares	19,262,864	39.3%
UK	7 shares	5,832,123	11.9%
Europe	10 shares	8,491,844	17.3%
Swiss	2 shares	1,779,981	3.6%
Shares	58 shares	48,900,310	99.8%
Cash		112,702	0.2%
<b>Total</b>		<b>49,013,013</b>	<b>100%</b>



### Industry split

Start of the year

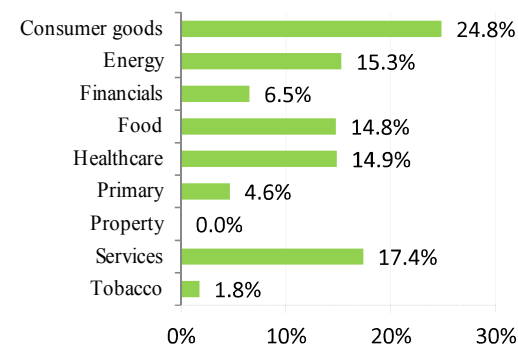
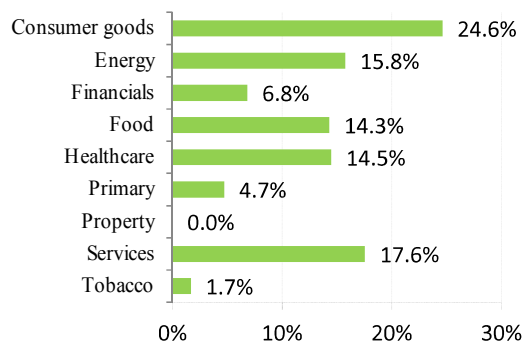
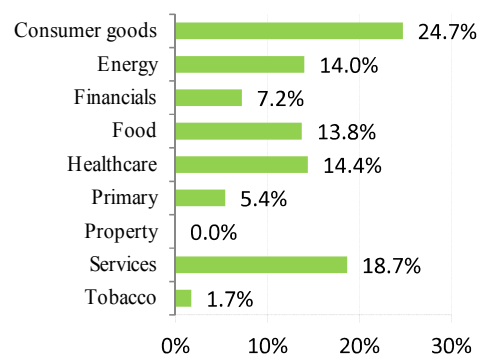
31 Mar 2014

Start of the month

31 Oct 2014

End of the month

30 Nov 2014



### Concentration risks:

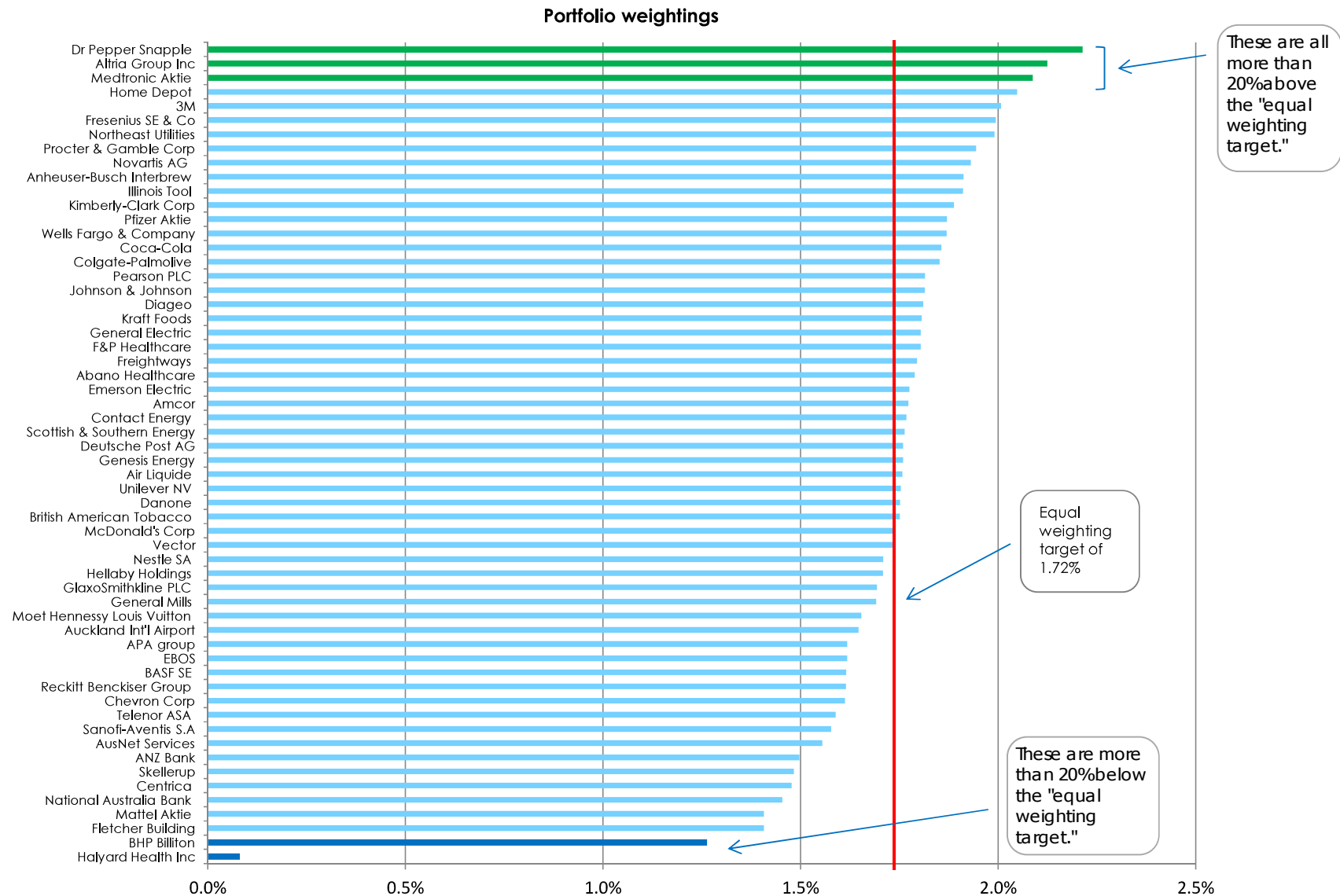
Shares that are 20% or more above the "equal weighting target" of \$845,052

[Medtronic Aktie](#) [Altria Group Inc](#) [Dr Pepper Snapple](#)

Shares that are 20% or less below the "equal weighting target" of \$845,052

[BHP Billiton](#) [Halyard Health Inc.](#)

30 November 2014



30 November 2014

## Manager: Forsyth Barr - Richard Burton

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	2,639,606	-1,204,848	3,195,145	1,912,532	48,900,310	1,138,883
Liquidity (cash)	612,483	1,000,000	-1,498,212	-24,221	22,652	112,702	5,650
Overall asset	42,970,359	3,639,606	-2,703,060	3,170,924	1,935,183	49,013,013	1,144,533

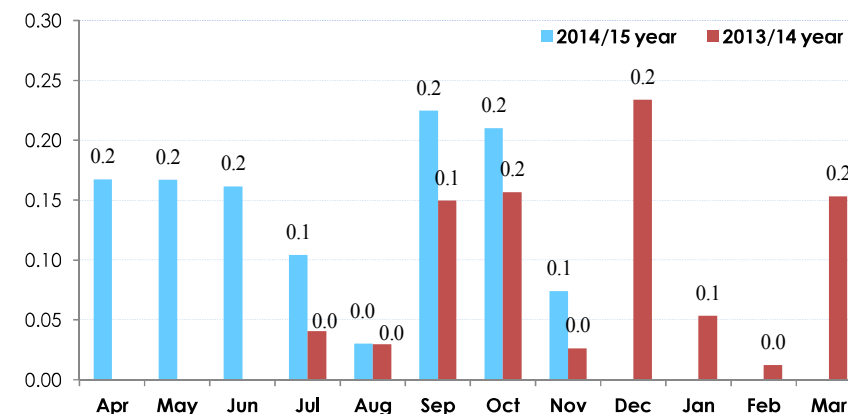
	During the month						
	Values			Gain/loss		Values	
	Start	Buys	Sells	Market	Currency	End	Net dividend
NZ	9,046,297	-	-	7,276	-	9,053,573	-
AUST	4,824,885	-	-	-155,712	-189,246	4,479,926	-
US	18,773,239	38,109	-	612,669	-161,153	19,262,864	53,595
UK	5,796,625	-	-	214,963	-179,465	5,832,123	12,805
Europe	8,139,450	-	-	502,123	-149,729	8,491,844	7,476
Swiss	1,713,649	-	-	86,028	-19,696	1,779,981	-
Overall shares	48,294,145	38,109	-	1,267,347	-699,290	48,900,310	73,875
Liquidity (cash)	120,034	-	-7,250	-457	375	112,702	274
Overall asset	48,414,179	38,109	-7,250	1,266,890	-698,915	49,013,013	74,149

Returns		
Month	Ytd	Since Inception
0.1%	9.2%	15.1%
-7.1%	6.1%	8.1%
2.7%	23.0%	13.6%
0.8%	11.7%	3.4%
4.4%	8.8%	6.6%
3.9%	21.0%	16.2%
1.3%	14.6%	11.1%
0.2%	-0.9%	0.4%
1.3%	14.5%	11.2%

## Cash holdings

Currencies	Ex rate 31 Oct 14	Start values (local)	End values (local)	Ex rate 30 Nov 14	Currency gain/loss	End values (NZ\$)
New Zealand dollars	1.0000	104,621	104,443	1.0000	-	104,443
Australian dollars	0.8854	1,020	999	0.9228	-46	1,082
Swiss Franc	0.7501	-	-	0.7584	-	-
Euro	0.6219	-	-	0.6307	-	-
Pound Sterling	0.4869	-	-	0.5019	-	-
US dollars	0.7789	11,108	5,636	0.7853	421	7,177
					375	112,702

Year-to-date income (\$m)



30 November 2014

Code	Company	Industry	Average purchase cost <sup>1</sup>	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	
ABA	Abano Healthcare	Services	5.82	121,522	121,522	6.85	7.20	832,426	-	-	42,533	-	874,958	-	5.1%	8.1%	19.6%
AIA	Auckland Int'l Airport	Services	2.97	208,143	208,143	3.87	3.87	805,513	-	-	-0	-	805,513	-	0.0%	0.6%	21.5%
FBU	Fletcher Building	Services	9.13	84,000	84,000	8.60	8.19	722,400	-	-	-34,440	-	687,960	-	-4.8%	-11.6%	-6.3%
CEN	Contact Energy	Energy	5.07	141,000	141,000	6.20	6.13	874,200	-	-	-9,870	-	864,330	-	-1.1%	18.3%	19.4%
EBO	EBOS	Consumer goods	8.73	84,000	84,000	9.57	9.42	803,880	-	-	-12,600	-	791,280	-	-1.6%	-4.6%	11.1%
FPH	F&P Healthcare	Healthcare	3.34	161,000	161,000	5.59	5.48	899,990	-	-	-17,710	-	882,280	-	-2.0%	31.3%	43.4%
FRE	Freightways	Services	4.34	161,000	161,000	5.70	5.45	917,700	-	-	-40,250	-	877,450	-	-4.4%	18.1%	19.9%
GNE	Genesis Energy	Energy	1.61	417,680	417,680	2.01	2.06	839,537	-	-	20,884	-	860,421	-	2.5%	31.2%	31.2%
HBV	Hellaby Holdings	Financials	2.78	273,000	273,000	2.98	3.06	813,540	-	-	21,840	-	835,380	-	2.7%	6.4%	13.1%
SKL	Skellerup	Consumer goods	1.35	490,000	490,000	1.46	1.48	715,400	-	-	9,800	-	725,200	-	1.4%	-13.7%	14.7%
VCT	Vector	Energy	2.78	300,993	300,993	2.73	2.82	821,711	-	-	27,089	-	848,800	-	3.3%	23.0%	5.5%
NZ subtotal in \$ooo's		11 shares				-	-	9,046	-	-	7	-	9,054	-	0.1%	9.2%	15.1%
AMC	Amcor	Services	11.35	65,800	65,800	13.24	13.18	871,041	-	-	32,701	-36,630	867,112	-	-0.5%	21.5%	23.3%
ANZ	ANZ Bank	Financials	33.68	21,169	21,169	37.84	34.59	800,996	-	-	-37,778	-30,934	732,283	-	-8.6%	0.4%	6.0%
APA	APA group	Energy	7.19	92,806	92,806	8.89	8.53	824,966	-	-	-	-33,437	791,529	-	-4.1%	27.8%	14.7%
BHP	BHP Billiton	Primary	38.94	18,431	18,431	38.36	33.51	706,971	-	-	-63,286	-26,089	617,596	-	-12.6%	-12.4%	-6.3%
NAB	National Australia Bank	Financials	35.31	20,125	20,125	39.52	35.33	795,362	-	-	-54,327	-30,035	711,000	-	-10.6%	-3.9%	3.9%
AST	AusNet Services	Energy	1.39	531,564	531,564	1.55	1.43	825,550	-	-	-33,022	-32,122	760,406	-	-7.9%	5.2%	6.3%
AUST subtotal in \$ooo's		6 shares		ex-rate		0.8854	0.9228	4,825	-	-	-156	-189	4,480	-	-7.1%	6.1%	8.1%
MMM	3M	Consumer goods	143.15	4,868	4,868	195.28	201.59	950,601	-	-	38,812	-8,063	981,349	-	3.2%	31.7%	28.1%
MO	Altria Group Inc	Consumer goods	45.70	16,401	16,401	60.98	63.31	1,000,189	-	-	46,746	-8,532	1,038,403	-	3.8%	52.5%	26.7%
CVX	Chevron Corp	Energy	153.71	5,378	5,378	150.47	146.58	809,220	-	-	-14,431	-6,477	788,312	-	-2.6%	8.9%	-1.8%
KO	Coca-Cola	Food	51.02	16,100	16,100	53.15	56.40	855,745	-	-	59,737	-7,461	908,021	-	6.1%	28.0%	7.6%
CL	Colgate-Palmolive	Consumer goods	74.33	10,353	10,353	85.26	87.47	882,710	-	-	31,056	-8,192	905,574	4,034	3.1%	20.0%	14.1%
DPS	Dr Pepper Snapple	Food	59.61	11,659	11,659	88.51	92.82	1,031,932	-	-	59,126	-8,892	1,082,165	-	4.9%	51.9%	36.3%
EMR	Emerson Electric	Consumer goods	72.96	10,430	10,430	81.42	83.25	849,237	-	-	26,246	-7,135	868,348	-	2.3%	9.4%	12.0%

30 November 2014

Code	Company	Industry	Average purchase cost <sup>1</sup>	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	32.96	34.22	849,888	-	-	39,730	-7,250	882,368	-	3.8%	17.0%	11.7%
GIS	General Mills	Food	62.69	12,530	12,530	66.05	66.03	827,665	-	-	7,470	-7,833	827,302	5,561	0.6%	13.7%	6.1%
HD	Home Depot	Services	99.46	8,050	8,050	125.20	124.41	1,007,878	-	-	1,860	-8,229	1,001,509	-	-0.6%	38.2%	17.2%
HYH	Halyard Health Inc.	Healthcare	48.06	-	793	-	49.76	-	38,109	-	2,158	-804	39,463	-	3.6%	3.6%	3.6%
ITW	Illinois Tool	Consumer goods	89.90	7,684	7,684	115.57	121.65	888,065	-	-	54,357	-7,681	934,742	-	5.3%	32.4%	24.5%
JNJ	Johnson & Johnson	Healthcare	110.29	6,500	6,500	137.42	136.52	893,260	-	-	1,419	-7,291	887,387	-	-0.7%	23.0%	19.4%
KMB	Kimberly-Clark Corp	Consumer goods	124.85	6,351	6,351	145.87	145.37	926,436	-	-	3,924	-7,107	923,252	38,148	3.9%	21.9%	16.0%
KRFT	Kraft Foods	Food	69.90	11,704	11,704	72.10	75.49	843,878	-	-	46,882	-7,259	883,501	-	4.7%	20.4%	7.9%
MAT	Mattel Aktie	Consumer goods	53.80	17,500	17,500	39.56	39.32	692,226	-	-	1,573	-5,654	688,145	-	-0.6%	-13.3%	-20.9%
MCD	McDonald's Corp	Services	124.55	6,930	6,930	119.89	122.53	830,817	-	-	25,268	-6,977	849,108	-	2.2%	10.8%	0.2%
MDT	Medtronic Aktie	Healthcare	67.69	10,906	10,906	86.57	93.57	944,141	-	-	84,711	-8,385	1,020,467	-	8.1%	35.7%	27.0%
NU	Northeast Utilities	Energy	53.46	15,400	15,400	63.36	63.21	975,722	-	-	5,734	-7,999	973,457	-	-0.2%	23.8%	15.2%
PFE	Pfizer Aktie	Healthcare	36.23	23,100	23,100	38.31	39.60	884,971	-	-	37,368	-7,517	914,822	-	3.4%	9.7%	8.2%
PG	Procter & Gamble Corp	Consumer goods	100.14	8,400	8,400	111.62	113.18	937,599	-	-	22,011	-8,901	950,709	5,852	2.0%	25.0%	10.5%
WFC	Wells Fargo & Company	Financials	55.60	13,230	13,230	67.35	69.12	891,059	-	-	30,914	(7,514)	914,459	-	2.6%	23.0%	29.3%
US subtotal in \$ooo's		22 shares		ex-rate		0.7789	0.7853	18,773	38	-	613	-161	19,263	54	2.7%	23.0%	13.6%
BATS	British American Tobacco	Tobacco	68.67	11,490	11,490	71.20	74.54	818,034	-	-	64,777	-26,299	856,513	-	4.7%	21.1%	7.7%
CNA	Centrica	Energy	7.14	126,000	126,000	6.16	5.73	775,823	-	-	-30,919	-22,572	722,331	12,805	-5.3%	-4.2%	-11.8%
DGE	Diageo	Food	37.78	22,974	22,974	37.16	38.54	853,799	-	-	58,744	-27,184	885,358	-	3.7%	10.1%	2.6%
GSK	GlaxoSmithkline PLC	Healthcare	32.34	28,105	28,105	28.71	29.46	806,958	-	-	46,466	-25,423	828,001	-	2.6%	-1.4%	-4.9%
PSON	Pearson PLC	Services	23.16	36,400	36,400	23.82	24.39	867,201	-	-	47,846	-27,259	887,787	-	2.4%	27.4%	6.0%
RB	Reckitt Benckiser Group	Consumer goods	92.20	7,636	7,636	106.70	103.42	814,726	-	-	-784	-24,247	789,695	-	-3.1%	12.2%	9.9%
SSE	Scottish & Southern Energy	Energy	29.99	26,488	26,488	32.47	32.56	860,085	-	-	28,833	-26,481	862,437	-	0.3%	16.9%	11.7%
UK subtotal in \$ooo's		7 shares		ex-rate		0.4869	0.5019	5,797	-	-	215	-179	5,832	13	0.8%	11.7%	3.4%
AI	Air Liquide	Primary	150.28	5,375	5,375	154.88	159.91	832,481	-	-	39,152	-12,094	859,540	-	3.3%	13.7%	6.5%
ABI	Anheuser-Busch Interbrew	Food	119.30	6,286	6,286	136.58	148.78	858,551	-	-	92,490	-15,791	935,250	7,476	9.8%	24.3%	19.1%
BAS	BASF SE	Primary	121.09	6,686	6,686	110.88	118.13	741,373	-	-	59,571	-11,113	789,831	-	6.5%	-5.1%	-1.6%
DPW	Deutsche Post AG	Services	33.35	20,557	20,557	39.56	41.86	813,157	-	-	59,499	-12,108	860,548	-	5.8%	-1.4%	19.6%
FRE	Fresenius SE & Co	Healthcare	52.76	14,100	14,100	65.53	69.16	923,903	-	-	64,957	-13,720	975,139	-	5.5%	15.9%	20.2%
BN	Danone	Food	93.20	9,625	9,625	86.33	89.02	830,947	-	-	37,918	-12,055	856,810	-	3.1%	10.0%	-3.3%

30 November 2014

Code	Company	Industry	Average purchase cost <sup>1</sup>	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	Moët Hennessy Louis Vuitton	Consumer goods	218.45	3,542	3,542	215.31	228.34	762,621	-	-	57,524	-11,379	808,766	-	6.1%	8.7%	3.6%
SAN	Sanofi-Aventis S.A	Healthcare	133.86	6,300	6,300	118.01	122.46	743,459	-	-	38,900	-10,855	771,504	-	3.8%	3.4%	-5.9%
TEL	Telenor ASA	Services	26.31	28,462	28,462	28.51	27.29	811,569	-	-	3,787	-38,548	776,808	-	-4.3%	11.3%	5.6%
UNA	Unilever NV	Consumer goods	51.02	16,604	16,604	49.47	51.65	821,389	-	-	48,325	-12,067	857,647	-	4.4%	10.0%	2.1%
Europe subtotal in \$ooo's		10 shares		ex-rate		0.6219	0.6307	8,139	-	-	502	-150	8,492	7	4.4%	8.8%	6.6%
NESN	Nestle SA	Food	84.97	8,785	8,785	92.59	95.13	813,383	-	-	31,622	-9,248	835,757	-	2.8%	12.3%	9.4%
NOVN	Novartis AG	Healthcare	96.86	7,700	7,700	116.92	122.63	900,267	-	-	54,406	-10,448	944,225	-	4.9%	29.9%	31.8%
Swiss subtotal in \$ooo's		2 shares		ex-rate		0.7501	0.7584	1,714	-	-	86	-20	1,780	-	3.9%	21.0%	16.2%
Overall shares in \$ooo's				58 shares				48,294	38	-	1,267	-699	48,900	74	1.3%	14.6%	11.1%
Liquidity in \$ooo's								120	-	-7	-0	0	113	0	0.2%	-0.9%	0.4%
Overall asset in \$ooo's								48,414	38	-7	1,267	-699	49,013	74	1.3%	14.5%	11.2%

Note: <sup>1</sup> "Average purchase cost" figures are for since inception period.

<sup>2</sup> Air Liquide received 462 shares from a 1:10 bonus issue in June 2014

<sup>3</sup> Fresenius received 9,400 shares from a 3:1 share split in August 2014

30 November 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

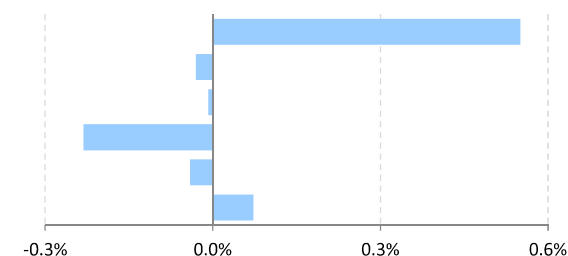
30 November 2014

## Environment and market statistics

### 90-day bank bill rates

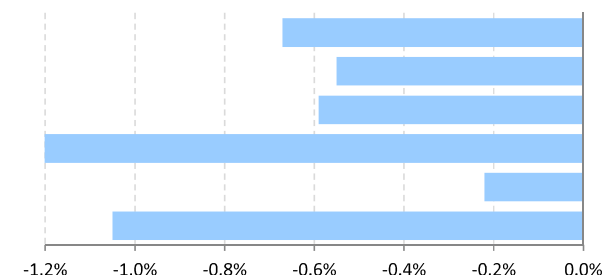
	Start of year 1 Apr 2014	Start of period 1 Nov 2014	End of period 30 Nov 2014	Movement	
				Month	Year-to-date
<b>NZ</b>	3.1%	3.7%	3.7%	(0.0%)	0.6%
<b>US</b>	0.1%	0.0%	0.0%	0.0%	(0.0%)
<b>UK</b>	0.4%	0.4%	0.4%	0.0%	(0.0%)
<b>Euro</b>	0.3%	0.1%	0.1%	(0.0%)	(0.2%)
<b>Japan</b>	0.1%	0.1%	0.0%	(0.0%)	(0.0%)
<b>Australia</b>	2.7%	2.7%	2.7%	0.0%	0.1%

### Year-to-date (change)



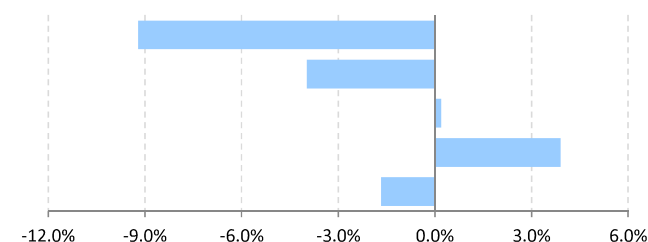
### 10 year government bond yields

	Start of year 1 Apr 2014	Start of period 1 Nov 2014	End of period 30 Nov 2014	Movement	
				Month	Year-to-date
<b>NZ</b>	4.6%	4.0%	3.9%	(0.1%)	(0.7%)
<b>US</b>	2.7%	2.4%	2.2%	(0.2%)	(0.6%)
<b>UK</b>	2.7%	2.2%	2.1%	(0.1%)	(0.6%)
<b>Euro</b>	2.9%	1.7%	1.6%	(0.1%)	(1.3%)
<b>Japan</b>	0.6%	0.5%	0.4%	(0.0%)	(0.2%)
<b>Australia</b>	4.1%	3.3%	3.0%	(0.3%)	(1.1%)



### Exchange rates

	Start of year 1 Apr 2014	Start of period 1 Nov 2014	End of period 30 Nov 2014	Movement	
				Month	Year-to-date
<b>US</b>	0.8664	0.7840	0.7866	0.3%	(9.2%)
<b>UK</b>	0.5206	0.4900	0.4999	2.0%	(4.0%)
<b>Euro</b>	0.6299	0.6215	0.6310	1.5%	0.2%
<b>Yen</b>	89.15	85.72	92.61	8.0%	3.9%
<b>Australia</b>	0.9364	0.8872	0.9208	3.8%	(1.7%)



30 November 2014

## 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.)
<b>US (S&amp;P 500)</b>	2.5%	10.4%	14.5%	18.4%	13.5%
<b>UK (FTSE 100)</b>	2.7%	1.9%	1.1%	3.5%	9.6%
<b>Germany (DAX)</b>	7.0%	4.4%	6.1%	9.9%	15.9%
<b>France (CAC 40)</b>	3.7%	(0.0%)	2.2%	2.2%	6.8%
<b>Japan (Nikkei 225)</b>	6.4%	17.8%	11.5%	21.0%	14.6%
<b>Australia (ASX 200)</b>	(3.3%)	1.4%	4.3%	9.1%	12.5%
<b>NZ (NZX 50)</b>	0.7%	5.5%	13.1%	15.5%	14.6%
<b>MSCINet div 50%hedged</b>	2.1%	14.2%	14.4%	18.4%	11.9%

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.

### MCA NZ Limited

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Symonds Street  
Auckland 1150

SuperLife House  
41 Charlotte St  
Eden Terrace  
Auckland 1021

Telephone (09) 375 9800  
Facsimile (09) 375 9801  
Email [mca@mcanz.co.nz](mailto:mca@mcanz.co.nz)

<b>Report type:</b>	Executive Recommendations
<b>Recommendation:</b>	The Executive approves/declines the recommendations of the Donations Assessor as outlined below
<b>Agenda item no:</b>	9
<b>Subject:</b>	Discretionary Donations
<b>Responsible for the report:</b>	Donations Manager/Donations Assessor

<b>Purpose of report:</b>	To inform and seek the Executive's approval/decline of donations.
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#### Approvals

St Matthews Church – Masterton – requested \$5,000 to repair porch roof – recommended standard donation of \$4,000.

#### Declines

Nga Kairauhii Charitable Trust – requested \$7,000 for administration costs – recommended \$0.

Immune Deficiencies Foundation of NZ Inc – requested \$15,000 for a portable trailer and promotional materials – recommended \$0.

Jonathan Bell

General Manager

December 18th 2014

## **Donation Evaluation**

**Organisation Name:** St Matthew's Church - Masterton

**Geographic Location:** Masterton

**Request No:** 24021

**Applicant No:** 3630

**Sector:** Community Facilities

**Application Type:** Discretionary

**Tax Status:** Tax-exempt (charity)

**Legal Status:** Church

### **Principal Officers/Personnel/Trustees**

**Contact:** John Whitehead  
**Address:** P O Box 588  
 MASTERTON 5840

**Chairperson:** Edwin O'Hara  
**Secretary:** Barbara Udy  
**Treasurer:**  
**Secretary/Treasurer:**

### **Aim of Organisation**

To provide voluntary help holistically through religious services and practical help.

<b># of Staff:</b>	2	<b># of Volunteers:</b>	20
<b># of Members:</b>	700	<b>Established:</b>	01/01/1860
<b># of Beneficiaries:</b>	500		

### **Current Application**

#### **Project Description**

The entrance porch requires a repair job with the old asphalt to be removed and resurfaced with butynol roofing

#### **Project Costs**

<b>Description</b>	<b>Total Amount</b>	<b>Other Funding</b>	<b>Requested</b>	<b>Recommended</b>
Repairs and maintenance - repair foyer roof	\$5,146	\$0	\$5,000	\$4,000.00

#### **Project Income**

<b>Other Funder</b>	<b>Amount</b>	<b>Decision Date</b>	<b>Confirmed</b>
	\$		

#### **Shortfall Raising Description**

--

#### **Previous Funding**

<b>Year</b>	<b>Application type</b>	<b>Amount</b>	<b>Project</b>
2009		\$1,500	meals and the christmas party
2010		\$6,000	stage one of a kitchen upgrade
2012		\$500	monthly midday meals

**Financial Position**

Financial Year: 31/12/2013			
<b>Revenue</b>		<b>Term Assets</b>	
Income	\$202,039	Fixed assets	\$3,126,560
<b>Total</b>	<b>\$202,039</b>	<b>Total</b>	<b>\$3,126,560</b>
<b>Expenses</b>		<b>Current Assets</b>	
Expenses	\$183,759	Current assets	\$22,302
Depreciation	\$31,362	<b>Total</b>	<b>\$22,302</b>
<b>Total</b>	<b>\$215,121</b>	<b>Term Liabilities</b>	
			\$
		<b>Total</b>	<b>\$0</b>
		<b>Current Liabilities</b>	
		Current liabilities	\$12,621
		<b>Total</b>	<b>\$12,621</b>
<b>Net Income:</b>	<b>\$-13,082</b>	<b>Net Assets:</b>	<b>\$3,136,241</b>

**Notes**

The Church's main income is from envelopes and collections (\$112K). Its main expenses are Stipend/ Salaries (\$91K).

**Accounts prepared by:** Reviewed by Suitably Qualified Person

**Comments and Analysis**

**Advisor:** Rose Artemiev

**Policy:** Meets Policy

**Project Background**

Maintenance is always ongoing and a major repair is necessary to make the hall foyer entrance weather tight and safer access for all, particularly the elderly who use the hall on a regular basis. The community hall provides for church functions, youth activities, weddings, funerals, outside community welfare organisations.

**Project Management**

The Church employs two staff members. The Church has a number of sub-committees and volunteers providing for day-to-day services.

**General Comments**

The community hall is available for the public to book and is used by the community. The hall is used by approximately 60 people each week. Recommend support.

**Recommended Amount**

\$4,000 for repairing porch roof

## **Donation Evaluation**

**Organisation Name:** Nga Kairauhii Charitable Trust

**Geographic Location:** Hastings

**Request No:** 24046

**Applicant No:** 6807

**Sector:** Community Facilities

**Application Type:** Discretionary

**Tax Status:** Tax-exempt (charity)

**Legal Status:** Charitable Trust

### **Principal Officers/Personnel/Trustees**

**Contact:** Areta Te Huia

**Chairperson:**

Areta Te Huia

**Address:** P O Box 2391

**Secretary:**

Stortford Lodge

**Treasurer:**

HASTINGS 4153

**Secretary/Treasurer:**

CAS HB

### **Aim of Organisation**

To provide a collective voice on specific issues for the six marae it represents - able to advocate on behalf of marae, with particular emphasis on wellbeing for marae whanau/hapu.

<b># of Staff:</b>		<b># of Volunteers:</b>	13
<b># of Members:</b>	6	<b>Established:</b>	09/07/1999
<b># of Beneficiaries:</b>	300		

### **Current Application**

#### **Project Description**

Administration costs - the Trust contracts out its administration work. The Trust applied to HB Lottery Community grant for wages but was declined.

#### **Project Costs**

<b>Description</b>	<b>Total Amount</b>	<b>Other Funding</b>	<b>Requested</b>	<b>Recommended</b>
Operating expenses - administration costs	\$22,470	\$15,470	\$7,000	\$0.00

#### **Project Income**

<b>Other Funder</b>	<b>Amount</b>	<b>Decision Date</b>	<b>Confirmed</b>
Own funds	\$15,470		Y

#### **Shortfall Raising Description**

There are not many funders who support the requested item. However, we will need to apply to other funders.

#### **Previous Funding**

<b>Year</b>	<b>Application type</b>	<b>Amount</b>	<b>Project</b>
2010		\$1,500	travel, stationery & a laptop
2010		\$3,000	operational expenses
2012		\$3,000	operational expenses

## Financial Position

Financial Year: 31/12/2013			
<b>Revenue</b>		<b>Term Assets</b>	
Income	\$30,678	Fixed assets	\$3,074
<b>Total</b>	<b>\$30,678</b>	<b>Total</b>	<b>\$3,074</b>
<b>Expenses</b>		<b>Current Assets</b>	
Expenses	\$129,487	Current assets	\$4,778
Depreciation	\$1,722	<b>Total</b>	<b>\$4,778</b>
<b>Total</b>	<b>\$131,209</b>	<b>Term Liabilities</b>	
			\$
		<b>Total</b>	<b>\$0</b>
		<b>Current Liabilities</b>	
		GST	\$6,741
		<b>Total</b>	<b>\$6,741</b>
<b>Net Income:</b>	<b>\$-100,531</b>	<b>Net Assets:</b>	<b>\$1,111</b>

## Notes

This organisation is in a parlous financial position.

**Accounts prepared by:** Audited by Chartered Accountants

## Comments and Analysis

**Advisor:** Bev Watkins

**Policy:** Meets Policy

## Project Background

To support the administration work of the Trust which includes supporting the 6 marae that represents Nga Kairauhi Trusts. The administration support is the back bone of the services that the Trust can supply to the 6 marae. The 6 marae are Mihiroa (Pakipaki), Matahiwi (Clive), Omahu/Te Awhina/Runanga (Fernhill) and Waimarama Marae.

## Project Management

This organisation has very little money and is not well managed. The company that supplies administrative services has been struck off the companies register.

## General Comments

This Trust has a contract with MOH to promote health initiatives on six marae. Administration costs are not covered by the MOH contract and they need to raise additional funds because for the first four months of the year the admin costs have come out of the contract income. Some of the people associated with this organisation have good reputations but the overall running of the Trust appears not to be well controlled. The had a DHB contract but they are no longer receiving funds for this programme, due to a restructuring of the funding model for the programme delivery. Recommend decline..

## Recommended Amount

\$0 for administration costs

## **Donation Evaluation**

**Organisation Name:** Immune Deficiencies Foundation of NZ Inc

**Geographic Location:** Regional

**Request No:** 23942

**Applicant No:** 7616

**Sector:** Health

**Application Type:** Discretionary

**Tax Status:** Tax-exempt (charity)

**Legal Status:** Incorporated society

### **Principal Officers/Personnel/Trustees**

**Contact:** Samantha Sutherland

**Address:** P O Box 75-076

Manurewa

AUCKLAND 2243

**Chairperson:**

Vicky Tattley

**Secretary:**

Janet Simons

**Treasurer:**

David Hillier

**Secretary/Treasurer:**

### **Aim of Organisation**

To support medically fragile children suffering from primary immune deficiencies and liver/bowel/bone marrow transplant.

<b># of Staff:</b>	3	<b># of Volunteers:</b>	500
<b># of Members:</b>	500	<b>Established:</b>	28/02/1989
<b># of Beneficiaries:</b>	500		

### **Current Application**

#### **Project Description**

Portable trailer and promotional materials to raise awareness of our charity and support patients events and fundraising.

#### **Project Costs**

<b>Description</b>	<b>Total Amount</b>	<b>Other Funding</b>	<b>Requested</b>	<b>Recommended</b>
Maintenance - portable trailer + promo material	\$21,734	\$0	\$15,000	\$0.00

#### **Project Income**

<b>Other Funder</b>	<b>Amount</b>	<b>Decision Date</b>	<b>Confirmed</b>
	\$		

#### **Shortfall Raising Description**

Fundraising through other methods.

#### **Previous Funding**

<b>Year</b>	<b>Application type</b>	<b>Amount</b>	<b>Project</b>
		\$	

## Financial Position

Financial Year: 31/03/2013			
<b>Revenue</b>		<b>Term Assets</b>	
Income	\$1,161,090	Fixed assets	\$311,190
<b>Total</b>	\$1,161,090	Investments	\$718,746
<b>Expenses</b>		<b>Total</b>	\$1,029,936
Expenses	\$981,861	<b>Current Assets</b>	
Depreciation	\$50,853	Current assets	\$130,833
<b>Total</b>	\$1,032,714	<b>Total</b>	\$130,833
		<b>Term Liabilities</b>	
			\$
		<b>Total</b>	\$0
		<b>Current Liabilities</b>	
		Current liabilities	\$33,307
		<b>Total</b>	\$33,307
		<b>Net Assets:</b>	\$1,127,462
<b>Net Income:</b>	\$128,376		

## Tagged Funds

Description	Amount
Plus reserves	\$120,000
Patient Care capital project	\$430,000
Funds held on behalf of patients	\$98,000

## Notes

The accounts for this organisation are not transparent. They only detail 7% of their total expenditure via a note. More detailed information has not been sought because of the recommendation to decline

**Accounts prepared by:** Audited by Chartered Accountants

## Comments and Analysis

**Advisor:** Bev Watkins

**Policy:** Meets Policy

## Project Background

It will enable us to travel and meet more regularly with our families in Hawke's Bay, taking useful literature and supplies for events such as Christmas party and fireworks fundraiser. We have many willing volunteers in Hawke's Bay, including Jodee Reid (Matisse's mum).

## Project Management

This organisation raises funds to support those suffering from immune deficiencies. They fund overheads, a family centre and medical research. There is no way to tell, from their accounts how much they are spending in each of these areas.

## General Comments

This request is for a promotional trailer, to be based in Auckland, but to be able to be used by Hawke's Bay families who are keen to promote the charity and enhance it's fundraising capability. There are 10 families locally. There is not management plan around use in HB, it will just be down to the volunteers to collect and use it. There is limited community value in this project for the ECCT region and on this basis, as well as the lack of financial transparency, the application is recommended declined.

## Recommended Amount

\$0 for a portable trailer and promotional materials

<b>Report type:</b>	Executive/Board Information Papers
<b>Recommendation:</b>	The Executive reviews the Staples Rodway Interim Review Report
<b>Agenda item no:</b>	10
<b>Subject:</b>	Interim Review Report to 30 <sup>th</sup> September 2014
<b>Responsible for the report:</b>	General Manager

<b>Purpose of report:</b>	To be informed of the findings of the Interim Review to 30 <sup>th</sup> September carried out by Staples Rodway.
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18 December 2014

The Trustees  
Eastern & Central Community Trust  
P O Box 1058  
HASTINGS 4156

Dear Trustees

## **Report to the Trustees of Eastern & Central Community Trust**

### **Scope**

We have performed the procedures agreed with you in our engagement letter dated 20 November 2014 with respect to the management financial statements of Eastern & Central Community Trust (ECCT) for 30 September 2014. Our engagement was undertaken in accordance with the basic principles and general guidance set out in the Agreed Upon Procedures Standards and Guidelines of the New Zealand Institute of Chartered Accountants. We disclaim any assumption of responsibility for the adequacy or otherwise of the procedures requested by you.

The procedures were performed solely to assist you in evaluating the accuracy of the management financial statements. Because the procedures performed do not constitute either an audit or a review, we do not express any assurance on the specified income and expenses.

Our report is solely for your information and is not to be used for any other purpose. This report relates only to the management financial statements specified above and does not extend to any other financial information of ECCT.

### **Work Programme**

The detailed checks undertaken, for your reference, were:

1. Agree the 30 September 2014 management accounts to the general ledger to confirm that they are a correct extraction from the accounting system
2. Examine the reconciliations for all balance sheet accounts checking ledger balance with underlying records
3. Verify any reconciling items greater than \$20,000 with supporting documentation
4. Verify journal entries greater than \$20,000 one month either side of 30 September 2014 with supporting documentation

## Findings

### 1. Agree management accounts to GL

We examined all P&L and balance sheet items and they agreed to the 30 September 2014 trial balance to within \$4.

### 2. Balance sheet reconciliations and 3. Verification of reconciling items over \$20,000

We examined all balance sheet reconciliations and ascertained the expected balance from underlying records. Except as noted below, all ledger balances were within \$30 of the underlying records.

We noted that the total accrued interest income on term deposits in the ledger was \$29,557.13 whereas the ECCT calculation of accrued interest and the information provided by email from ANZ and BNZ indicated accrued interest should have been \$30,114.38. The ledger balance was, therefore, \$557.25 different from the underlying records.

We also noted that on the reconciliation for the market value of Pimco overseas bonds, there was a valid reconciling item of \$111,657.71 relating to a distribution that was made in October, relating to the three months to September 2014. This was appropriately treated. Alternative treatment would be to record the \$111,657.71 as accrued income at 30 September 2014. This would have the benefit of ensuring the amount is expected and would be followed up if not received.

### 4. General journals greater than \$20,000

We examined all general journals greater than \$20,000 from 1 September to 31 October 2014 (ie one month either side of the 30 September 2014 month end).

Most of the journals were month end accruals or reversals of the previous month's accruals. All journals agreed to supporting documentation.

There was one journal that was posted in October 2014 that created a mismatch between the 31 October 2014 monthly management report and the general ledger. The journal was to move Pimco distributions for the year to date (ie the June and September 2014 quarters) from the "Pimco change in value" income code to the "Pimco interest" income code. This was a movement within income only, and did not impact total income, profit nor the balance sheet. However, the GL and monthly report differed as follows:

Code	Description	GL \$	Monthly mgmt report YTD \$	Difference \$
6086	Bonds Pimco interest	(600,756)	(241,543)	(359,213)
6156	Bonds Pimco change in	(115,028)	(474,241)	359,213
	Total Pimco YTD income	(715,784)	(715,584)	-

We would like to thank Jonathan Bell, Andy Arcus and staff for their assistance during the Agreed Upon Procedures.

Yours faithfully  
STAPLES RODWAY HAWKES BAY



Philip Pinckney  
PARTNER  
ppinckney@stapleshb.co.nz

<b>Report type:</b>	Executive/Board Information Papers
<b>Recommendation:</b>	The Executive reviews the Hedging Reports as provided by Michael Chamberlain Associates and the General Manager
<b>Agenda item no:</b>	11
<b>Subject:</b>	Hedging Reports
<b>Responsible for the report:</b>	General Manager

<b>Purpose of report:</b>	To be informed of matters pertaining to the Trusts current hedging exposure to allow an action plan to be developed for hedging contract rollovers.
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There have been no significant updates.

### 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

Friday, 28 November 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
CB131766	NZD	17,500,000.00	USD	13,613,250.00	0.777900	09-Feb-15	0.779584	37,532.86	0.785150
CB131764	NZD	8,500,000.00	EUR	5,268,385.00	0.619810	09-Feb-15	0.625438	75,957.75	0.630190
CB131765	NZD	5,800,000.00	GBP	2,823,208.00	0.486760	09-Feb-15	0.496122	108,679.91	0.499410
Total								222,170.52	

Note: Where a 3rd Currency Contract exists the Cust Deal Ref will appear twice. The first valuation is for the Cust Buy Currency, and the second, is for the Cust Sell Currency.

## Exchange rates: current and relative levels

8 December 2014

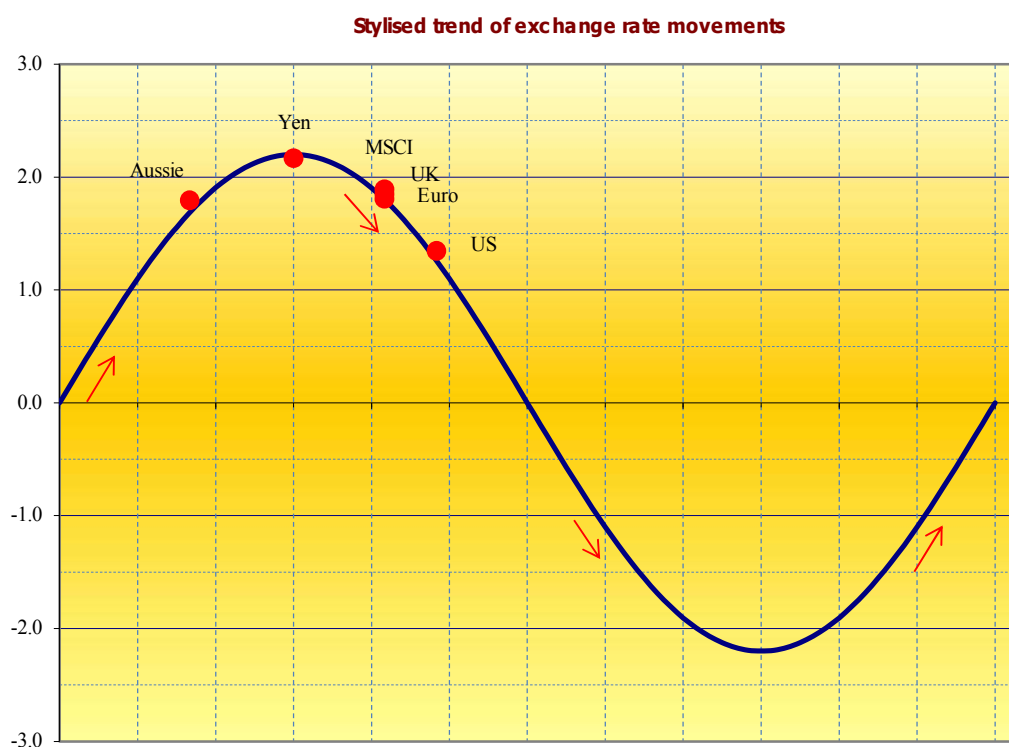
The data and graphs in these pages are from a NZ dollar perspective.

	US	UK	Aussie	Yen	Euro	China	MSCI weighted
<b>Current level</b>	<b>0.7703</b>	<b>0.4946</b>	<b>0.9269</b>	<b>93.7000</b>	<b>0.6271</b>	<b>4.7375</b>	<b>0.6747</b>
Six months ago	<b>0.8503</b>	<b>0.5060</b>	<b>0.9104</b>	<b>87.2000</b>	<b>0.6231</b>	<b>5.3145</b>	<b>0.7051</b>
1-month average trend	up	up	up	up	up	up	up
3-month average trend	down	down	up	up	down	down	down
6-month average trend	down	down	down	up	down	down	down
1-year average trend	down	down	up	up	up	down	down

### Historical statistics (post 1986)

+2 standard deviations	0.8575	0.5156	0.9485	94.0353	0.6473	6.2227	0.6955
+1 standard deviations	0.7451	0.4495	0.8899	82.4141	0.5906	5.5160	0.6211
<b>Average</b>	<b>0.6328</b>	<b>0.3834</b>	<b>0.8312</b>	<b>70.7929</b>	<b>0.5338</b>	<b>4.8094</b>	<b>0.5466</b>
-1 standard deviations	0.5205	0.3173	0.7726	59.1716	0.4770	4.1028	0.4721
-2 standard deviations	0.4081	0.2511	0.7140	47.5504	0.4202	3.3961	0.3976

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.

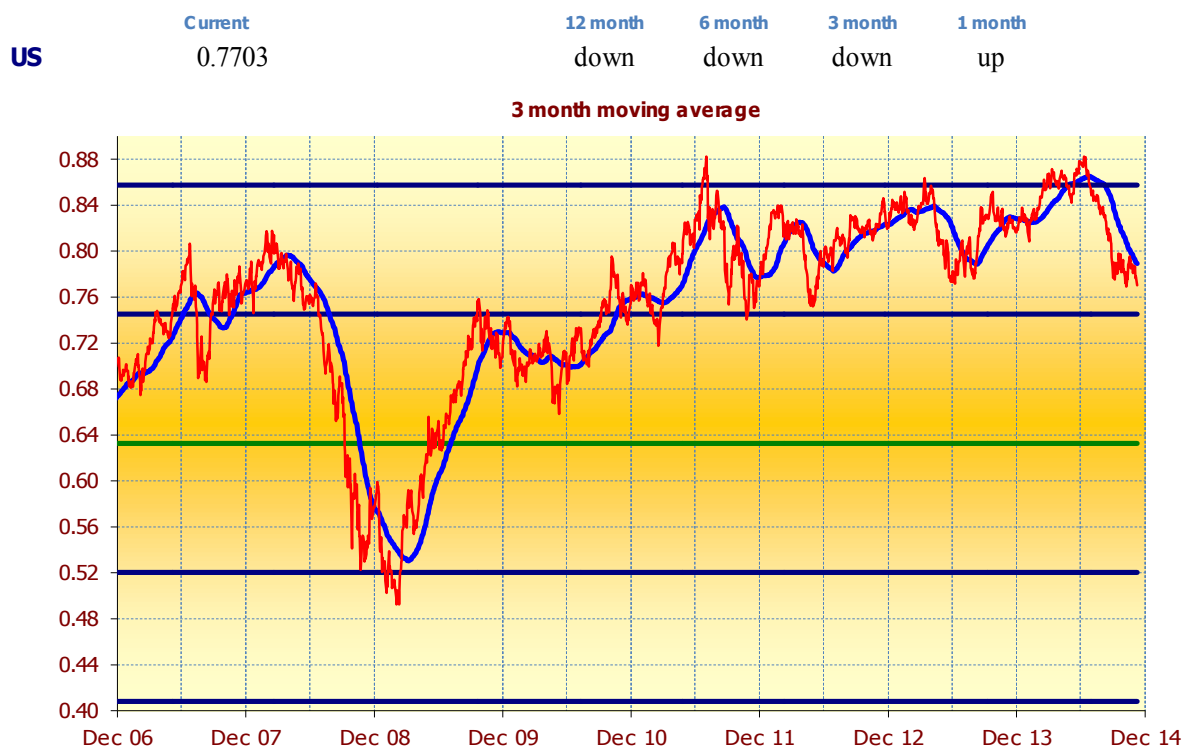


Note: the movement of the exchange rate does not follow a perfect cycle and may not cycle. It can be observed to fluctuate around an "average" and by mathematical definition will fall within plus or minus one standard deviation 68% of the time.

## 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 8 December 2014, against the long-term average and standard deviations since 1986.



## 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 8 December 2014, against the long-term average and standard deviations since 1986.

**UK**

0.4946

down

down

down

up

**3 month moving average**



**Euro**

0.6271

up

down

down

up

**3 month moving average**



## 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 8 December 2014, against the long-term average and standard deviations since 1986.

**Australia** 0.9269

up down up up



**Japan** 93.7000

up up up up



## 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 8 December 2014, against the long-term average and standard deviations since 1986.

#### Canada

0.8811

down

down

down

up



#### Singapore

1.0186

down

down

down

up



## 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 8 December 2014, against the long-term average and standard deviations since 1986.

**MSCI**

0.6747

down

down

down

up



**Tw**

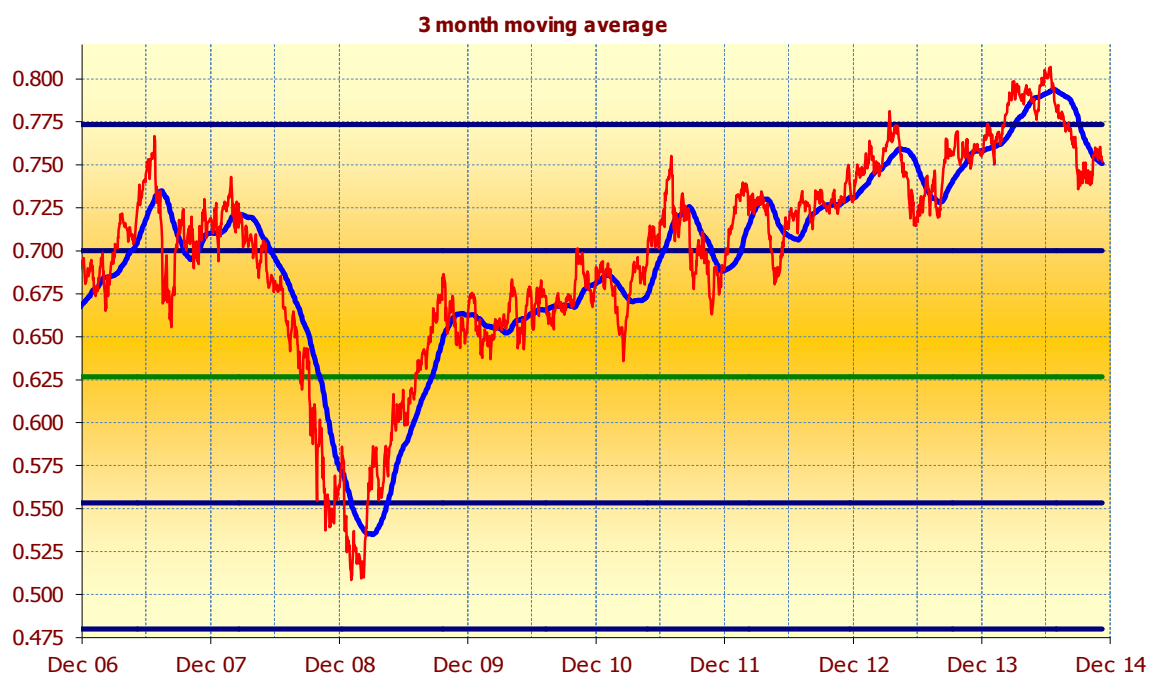
0.7519

down

down

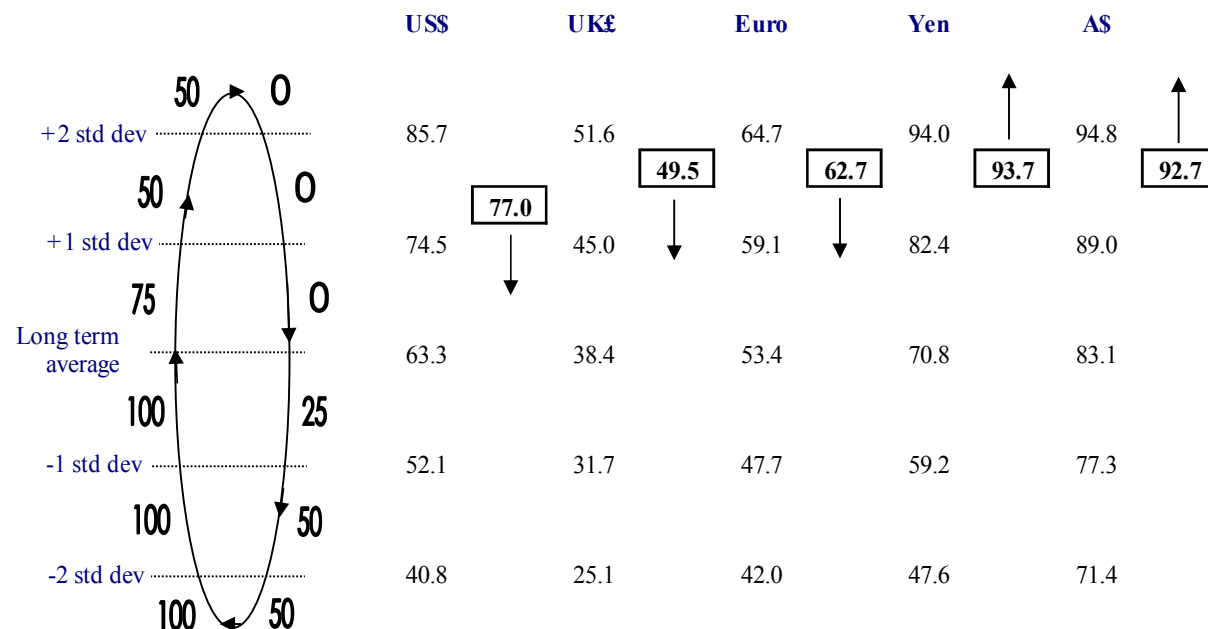
down

up



## Eastern & Central Community Trust

### Equities currency hedging contract position at 8 December 2014



	US\$	UK£	Euro	Yen	A\$
Current exchange rate	0.7703	0.4946	0.6271	93.70	0.9269
Policy position (from the above graph)	0%	0%	0%	50%	50%
Current position	50%	50%	50%	0%	0%

### Exposure as at 30 November 2014

Forsyth Barr	19.26	5.83	10.27		4.48
Elevation Capital	20.25	5.90	7.84		8.60
<b>Total</b>	<b>39.51</b>	<b>11.74</b>	<b>18.11</b>		<b>13.08</b>

Target cover at 08 Dec 14 (\$m)	0.0	0.0	0.0	0.0	6.5
Current contract cover	17.50	5.800	8.500		
Strike rate purchased	0.7779	0.4868	0.6198		
Target minus current contract cover =	-17.5	-5.8	-8.5	0.0	6.5

Contract surplus (deficit) (\$m)	(\$0.17)	\$0.09	\$0.10	\$0.00	\$0.00
----------------------------------	----------	--------	--------	--------	--------

**Total current contract surplus (deficit) = 22,419.51**

### Historical hedging actions

7 Nov 2014 - 50% hedged to Euro, UKP and US\$; 0% hedged to A UD and Yen; maturity 9 Feb 2015

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

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

### Notes

USD is used to hedge the currencies of USA, Brazil, Thailand, Malaysia & Hong Kong. Euro is used to hedge the Euro, Norway and Switzerland. The hedging contract for overseas bonds is excluded from this report.

17 December 2014

## NZD Corporate FX Update

- The USD has seen a mixed performance over the past month, with commodities in centre stage.
- NZD attracts support on the crosses, but medium-term interest to sell against the USD remains intact.
- Importers hoping for NZD/USD opportunities above 0.80 may be disappointed, while exporters may soon be rewarded for their patience with dips toward 0.75.

Within financial markets, currencies have mostly taken a back seat to the fireworks ongoing in the commodities space. Crude oil has nearly halved in price since its 2014-high was struck in June. Unsurprisingly, this has weighed on oil-sensitive currencies such as the Norwegian krone and the Russian rouble, as well as risk sentiment more broadly. While forecasters expect oil prices to stabilise around US\$70/bbl in 2015, the near-term pessimism could well extend into year-end, weighing modestly on NZD.

The Fed's December FOMC meeting on Thursday is hotly anticipated, with markets poised for an upgrade to the policy rate outlook. US policymakers have been uniformly upbeat about the benefits that lower gas prices will have for US consumer, likely outweighing the negative effects on shale oil investment projects.

But with expectations so high, Fed Chair Yellen and her peers would need to over-deliver for the USD to finish the year on a strong note. At the very least, the Fed would need to remove the reference to there being a "considerable time" between the end of QE and interest rate hikes, as well as an upgrade to the median 'dot point' (policymakers' own expectations of where rates will be). Near-term challenges aside, betting on a stronger USD remains one of the most compelling medium-term plays.

The RBNZ surprised some by maintaining an explicit tightening bias at its December meeting, after that bias had seemingly disappeared in October. Above-trend activity growth and revived house price inflation in Auckland justifies the retention of the bias, and certainly dispels the notion of rate cuts any time in the near future.

Still, the Bank pushed back its expected resumption of rate hikes to at least late-2015, and reduced the expected OCR peak in this cycle. With inflation still more likely to surprise on the soft side, there is a growing risk that the OCR might simply remain where it is for some time. Even if the RBNZ does start raising OCR as its projections imply, we expect the Federal Reserve to be well underway in its own tightening cycle. The direction for NZ-US rate spreads is clearly lower still, and with it, the NZD.

### NZD Forecast Summary

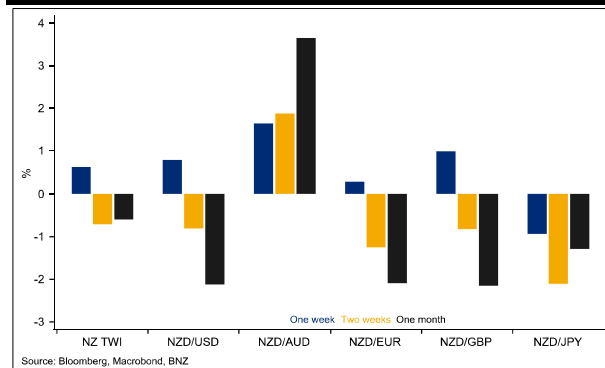
Majors	EUR/USD	USD/JPY	GBP/USD	NZD/USD	AUD/USD	AUD/NZD
16/12/2014	1.24	118	1.56	0.77	0.82	1.06
Mar-15	1.18	117	1.54	0.74	0.81	1.09
Jun-15	1.14	120	1.52	0.73	0.80	1.10
Sep-15	1.13	122	1.50	0.71	0.79	1.11
Dec-15	1.12	123	1.50	0.70	0.78	1.11
Mar-16	1.11	124	1.48	0.69	0.77	1.12
Jun-16	1.10	125	1.47	0.68	0.76	1.12
Sep-16	1.10	125	1.46	0.67	0.75	1.12
Dec-16	1.10	125	1.47	0.66	0.75	1.14
Mar-17	1.11	124	1.47	0.66	0.76	1.15
Jun-17	1.12	123	1.48	0.65	0.77	1.18

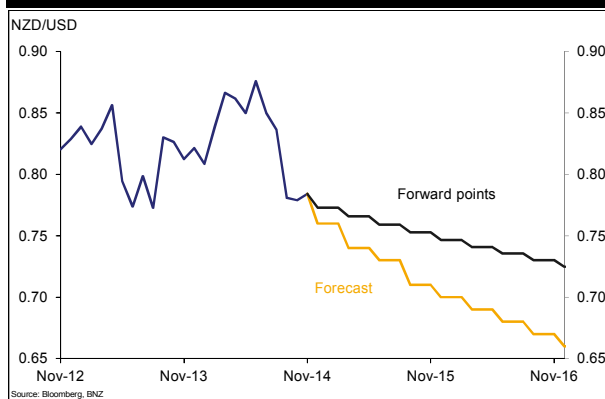
NZD Crosses	NZD/EUR	NZD/JPY	NZD/GBP	NZD/USD	NZD/AUD	TWI
16/12/2014	0.62	91	0.49	0.77	0.94	78
Mar-15	0.63	87	0.48	0.74	0.91	76
Jun-15	0.64	88	0.48	0.73	0.91	76
Sep-15	0.63	87	0.47	0.71	0.90	75
Dec-15	0.63	86	0.47	0.70	0.90	74
Mar-16	0.62	86	0.47	0.69	0.90	73
Jun-16	0.62	85	0.46	0.68	0.89	73
Sep-16	0.61	84	0.46	0.67	0.89	72
Dec-16	0.60	83	0.45	0.66	0.88	71
Mar-17	0.59	82	0.45	0.66	0.87	70
Jun-17	0.58	80	0.44	0.65	0.84	69

Source: BNZ, Bloomberg

### NZD – Changes Over The Past Month



### NZD/USD Forecast



## The Crosses:

**NZD/AUD:** The cross has shot higher over the past month, driven by the AUD side of the equation. The relentless decline in commodity prices, and growing expectations of RBA rate cuts in 2015, has seen AUD drop sharply. Our NAB colleagues now expect the RBA to cut its policy rate by 25bps in March, and perhaps a further 25bps in August 2015. We downgraded our AUD forecasts, such that we now see NZD/AUD staying above 0.90 through 2015. While the cross may well challenge the all-time high of 0.9584, we remain deeply sceptical of the idea that it will make a break for parity.

**NZD/GBP:** The GBP remains out of the spotlight. As neither commodity-linked nor a particular safe-haven, it has largely been left to the whims of broader USD moves. The cross has stepped modestly lower, a result mainly due to NZD weakness. We do not see this dynamic changing in the near-term, but are wary of the UK's General Election in May. The widening political gulf between the major parties, and divisive (and market-sensitive) issues such as EU membership, mean that GBP may weaken heading into the Election. We see the cross remaining in the high 0.40s through into 2016.

**NZD/EUR:** ECB officials remain heavy on rhetoric but still light on new policy measures, though it is something of an indictment of Europe's woes that markets expect fresh easing every month. Warnings of a QE program has kept EUR on the run, though failure to deliver this in January will come as a significant disappointment. We remain convinced that the ECB will have to pull the trigger in early 2015, which should see EUR fall faster than NZD at that time. Hence we see the cross rise modestly into the first half of next year, before declining thereafter.

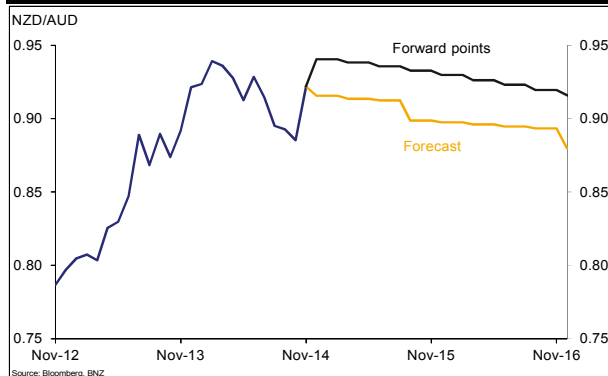
**NZD/JPY:** The JPY continued to weaken dramatically through to mid-December, with Japan's deteriorating fiscal books in sharp focus after an important sales tax hike was delayed. However, USD/JPY has eased off its highs significantly, partly helped by Japanese officials expressing discomfort at the speed of JPY's depreciation. Clearly they have become more cognisant of the reduced spending power of consumers and importers. More recently, JPY has benefitted as a safe haven, thanks to deteriorating investor sentiment. We suspect that JPY is in for a period of consolidation, and pick NZD/JPY to settle back below 90.0 early in the new year.

### Implications for corporate hedging:

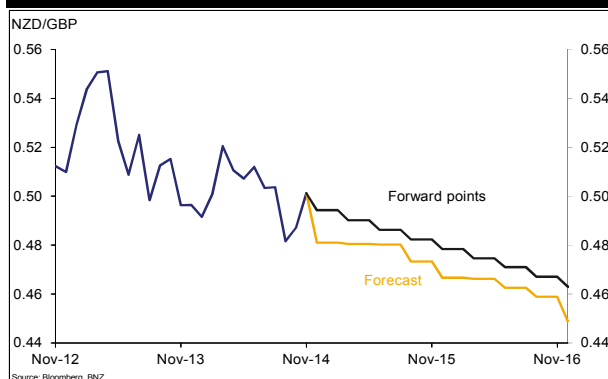
The medium-term story remains one of further NZD/USD weakness, and importers holding out for a sustained return above 0.80 are likely to be frustrated. Exporters with time on their hands can likely afford to be patient. We would consider dips below 0.75 opportune for those with near-term hedging needs.

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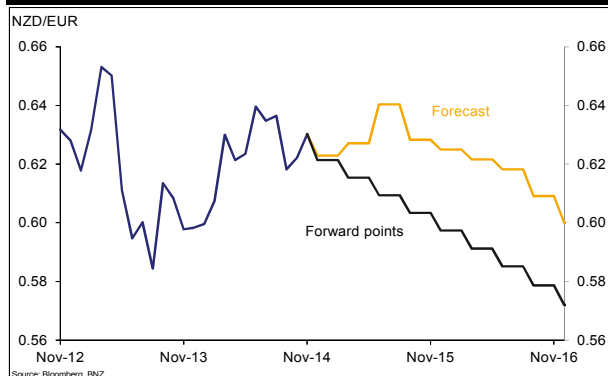
### NZD/AUD Forecast



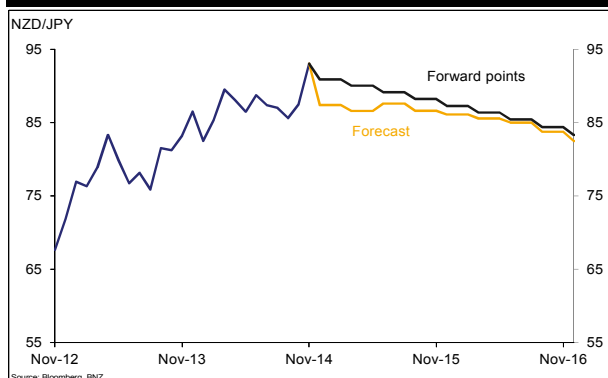
### NZD/GBP Forecast



### NZD/EUR Forecast



### NZD/JPY Forecast



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<b>Report type:</b>	Executive/Board Information Papers
<b>Recommendation:</b>	The Executive reviews the various investment commentaries and market reviews as provided by the General Manager
<b>Agenda item no:</b>	12
<b>Subject:</b>	Investment Commentaries & Market Reviews
<b>Responsible for the report:</b>	General Manager

<b>Purpose of report:</b>	To be informed of matters pertaining to investments and recent performance of investment markets
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# Monthly Market Review

## 30 November 2014



	Month End	Percentage Performance			Year to Date since:	
	Index	Month	3 Months	12 Months	31 Dec 2013	31 Mar 2014

### NZ Indexes

NZX50 Gross	5,424.45	0.68%	3.85%	13.13%	14.51%	5.53%
NZX50 Gross with Imputation Credits	6,227.72	0.82%	4.63%	14.66%	16.03%	6.61%
NZX10 Gross	5,456.84	-0.73%	0.34%	7.00%	7.86%	-0.85%
NZSX Small Companies (Gross) Index	35,911.16	1.62%	5.00%	3.73%	4.64%	6.17%
NZSX Small Companies (Gross) Index w Imps	40,273.96	1.72%	5.42%	5.03%	5.88%	7.18%
NZX Property Sector (Gross) Index	3,611.41	2.17%	3.96%	18.66%	19.72%	18.20%

### Australian Indexes

All Ordinaries Accumulation (NZD)	49,117.89	-6.86%	-7.22%	1.00%	3.06%	2.62%
S&P/ASX 200 Accumulation (AUD)	46,187.80	-3.25%	-4.40%	4.30%	3.48%	1.36%

### Other Indexes (in stated currency)

MSCI World (NZD) with net divs	5,884.49	1.08%	6.51%	13.27%	11.83%	16.43%
MSCI World Price Index (NZD)	2,215.92	0.92%	6.08%	11.09%	9.80%	14.88%
MSCI World (NZD) with net divs 50% Hedged	859.04	2.11%	5.22%	14.81%	12.81%	14.20%
MSCI World (NZD) with net divs 100% Hedged	1,198.74	3.14%	3.86%	16.17%	13.60%	11.88%
MSCI Emerging Mkts (Local) with net divs	447.32	1.13%	-1.80%	6.79%	7.85%	8.43%
S&P 500 (USD)	2,067.56	2.45%	3.20%	14.49%	11.86%	10.43%
DJIA (USD)	17,828.24	2.52%	4.27%	10.83%	7.55%	8.33%
Nasdaq (USD)	4,791.63	3.47%	4.61%	18.02%	14.73%	14.11%
Nikkei 225 (JPY)	17,459.85	6.37%	13.19%	11.48%	7.17%	17.75%
FTSE 100 (GBP)	6,722.62	2.69%	-1.42%	1.08%	-0.39%	1.88%
DAX (EUR)	9,980.85	7.01%	5.39%	6.12%	4.49%	4.45%
CAC 40 (EUR)	4,390.18	3.71%	0.21%	2.21%	2.19%	-0.03%

### Other Sectors

NZX NZ Government Stock	1,435.53	0.70%	1.86%	7.20%	6.55%	5.25%
NZX Corporate A Grade	4,387.00	0.55%	1.89%	6.51%	6.51%	4.95%
Barclays Global Agg Index Hedged to NZD	334.12	1.22%	2.25%	9.84%	10.19%	7.29%
Citigroup WGBI Hedged to NZD	2,790.62	1.43%	2.50%	10.05%	10.56%	7.60%
Citigroup WGBI Unhedged (NZD)	550.15	-1.49%	2.25%	3.23%	5.04%	7.87%
NZX NZ 90 Day Bank Bill	648.46	0.28%	0.90%	3.24%	3.02%	2.31%
UBS Global Real Estate Investors TR Hedged	3,358.62	2.72%	5.88%	27.92%	27.76%	19.26%
West Texas Intermediate Crude Oil (USD)	66.15	-17.87%	-31.07%	-28.66%	-32.79%	-34.88%
Brent Crude Oil (USD)	68.99	-18.64%	-31.87%	-37.61%	-37.75%	-35.51%
Gold (USD)	1,167.41	-0.52%	-9.35%	-6.87%	-3.17%	-9.08%

### Foreign Exchange (NZD)

AUD	0.9197	3.93%	2.76%	2.95%	-0.02%	-1.76%
EUR	0.6297	1.42%	-0.92%	5.02%	5.42%	0.01%
GBP	0.5013	3.09%	-0.55%	0.58%	0.87%	-3.70%
JPY	93.1678	6.84%	7.14%	11.48%	7.70%	4.26%
USD	0.7850	0.91%	-6.22%	-3.85%	-4.62%	-9.54%

### New Zealand Yields

90 Day Bank Bill	3 year Government Bond	10 year Government Bond
3.67%	3.59%	4.08%

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## Economic Outlook

It should have come as no surprise to anyone that; the Reserve Bank today acknowledged that inflation was surprising to the downside; that it moderated its interest rate track as a consequence; but that, perhaps most importantly, the RBNZ remains on a tightening bias. Be that as it may, the risks around the Bank's projections are many and while the bias must be for an even weaker inflation and interest rate track than currently postulated, there remain significant risks to the other side as well. Today's MPS made this clear. But for the market it means it's all back to data watching for the meantime. For next Thursday's Q3 GDP accounts, we expect a 0.9% real quarterly gain, but also watch for yet further revisions to recent history as Statistics NZ integrates the latest year-to-March GDP information into the quarterly accounts. The ANZ business survey (19 December) will serve as a place-holder for the NZIER's QSO of 20 January, while the Q4 CPI is due 21 January.

## Interest Rate Outlook and Strategy

This week our NAB colleagues revised their expectations for RBA activity, to include two 25bps rate cuts in 2015 (the first in March). This is a little more than the 36bps of cuts the market currently prices by Q3 next year. By contrast, this week's RBNZ meeting has firmed our conviction in our view that the next move for the RBNZ's cash rate is likely higher. But near-term we prefer to receive the NZ front-end to benefit from carry. We would also avoid being aggressively short NZGBs heading into 2015. Ultimately we see the long-term NZ 10-year bond 'buy zone', above 4.50%, being reached by late 2015/early 2016. Our diverging NZ-AU cash rate views are consistent with NZ-AU 2-year spreads widening to above 170bps. We essentially still see NZ-AU long-end bond spreads as being range-bound, but in a higher range than in 2014. We see a 70-120bps range in 2015 (currently 100bps).

## Currency Outlook

The NZD popped more than 100pts higher after the RBNZ MPS, an odd reaction given that the Bank lowered its rate track. We suspect this reflects disappointment in the speculative FX community, which may have been looking for a complete removal of the tightening bias. But nothing today changes our conviction in a lower NZD into 2015, and we still view squeezes above 0.79 as opportunities to get strategically short. Even if the RBNZ keeps to its new track, the Fed is still the more likely of the two to raise rates first in 2015. That, and rising currency volatility, detracts from notions that NZD is set to benefit from the carry trade, as it did in the middle of this year. Also, Governor Wheeler's professed surprise that NZD had appreciated on today's MPS could be interpreted as a warning.

## Governor Wheeler no Scrooge

- Inflation surprisingly low
- So RBNZ sees no reason to steal Christmas cheer
- Not in 2014 – and maybe not in 2015 either
- Let the good times roll
- Though reminders of moderation remain in place

Clearly there were a lot of currency punters looking for the RBNZ to go weak at the knees today. Why else would the NZD jump a cent on one of the most predictable and innocuous Reserve Bank statements in some time?

It should have come as no surprise to anyone that:

- the Reserve Bank acknowledged that inflation was surprising to the downside;
- it moderated its interest rate track as a consequence; but, perhaps most importantly,
- it remains on a tightening bias.

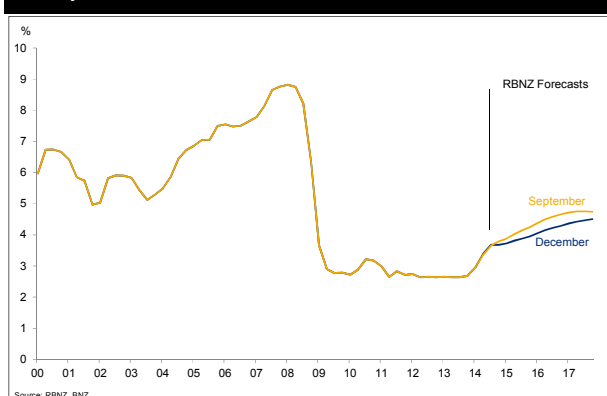
Be that as it may, the risks around the Bank's projections are many and while the bias must be for an even weaker inflation and interest rate track than currently postulated, there remain significant risks to the other side as well.

For all intents and purposes, the RBNZ simply dropped the first rate hike from the track it published in September pushing the first increase out to H2 2015, from H1. It then left the track broadly unchanged except to the extent that no compensation is made for the first-hike-removal. This means the peak in the cash rate falls to 4.25% from the previously published 4.5%.

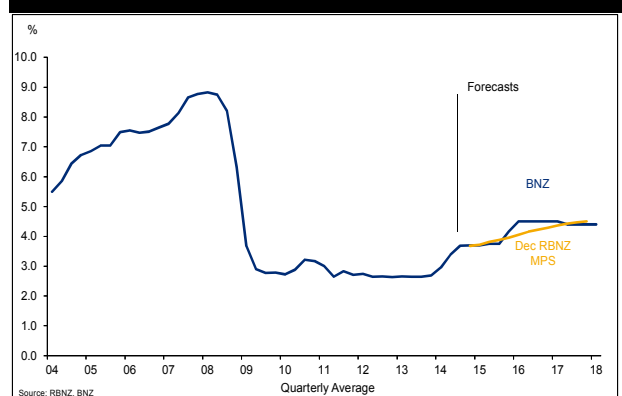
Our own view on interest rates is unchanged by today's statement. It may look like we have a more aggressive track than the RBNZ but this is not, in fact, the case.

The difference is that the RBNZ portrays a path which sees the cash rate rising by 10 basis points a quarter. This is the prerogative of a modeler. We, however, have

90 Day Interest Rates



90 Day Bank Bills



to publish a view which shows discrete 25 basis point increases at specific meeting times. We have assumed the RBNZ raises rates over three consecutive meetings starting December 2015. The balance of risk is that the start-date is delayed relative to these forecasts.

Therein, may lie a problem, however. If inflation continues to surprise on the downside and the RBNZ is forced to further delay its tightening cycle there is a very real risk that the proposed tightening gets pushed out to a time when the New Zealand economy is clearly slowing and, hence, obviates the need for any further increase. The possibility that a 3.5% cash rate remains for a very long time is thus very real, albeit not our, or the RBNZ's, central forecast.

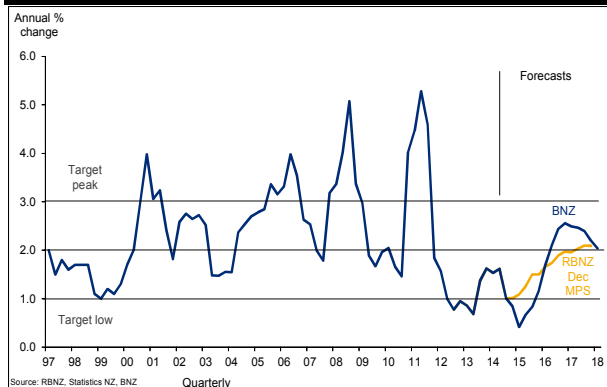
It should be noted that it already looks as if the Bank is overestimating the likely inflation outturn for the next two quarters. Indeed, the Bank acknowledges this in its Monetary Policy Statement (MPS) in noting that the Dubai Oil price was estimated to sit in a range of USD80 to 85 when the forecasts were put to bed, but it now sits at USD70.

Accordingly, we continue to see reductions in pump prices for petrol such that we now forecast a quarterly CPI of -0.1% for Q4, 2014 and 0.1% for Q1, 2015.

The RBNZ's published projections for these quarters are 0.1% and 0.4% respectively. If we are right, then annual CPI inflation will fall to just 0.4% in the year ended March 2015 compared with a current RBNZ projection of 1.1%. Moreover, we believe there are further downside risks to our own forecasts.

By our reckoning, by September 2015 we will have witnessed five consecutive quarters of annual inflation at 1.0% or below. This must have an impact on inflation expectations and, in turn, future inflation.

### Consumer Price Index



Our expectation that there is finally a resurgence in inflationary pressure rests on three key assumptions: global deflation diminishes; the NZD falls; and excess demand in the domestic economy finally creates inflation.

In large part, the RBNZ has the same view. The risks are clear, particularly the upside risk to the currency and the ongoing downside risk to global commodity prices. With regard to commodity prices, there is also the NZ specific risk associated with dairy. The RBNZ has assumed dairy export prices rise by around 40% from current levels in USD terms. The assumption is not substantially different to either our own or Fonterra's views. The direction of the risk is clear.

But the risks are not one sided:

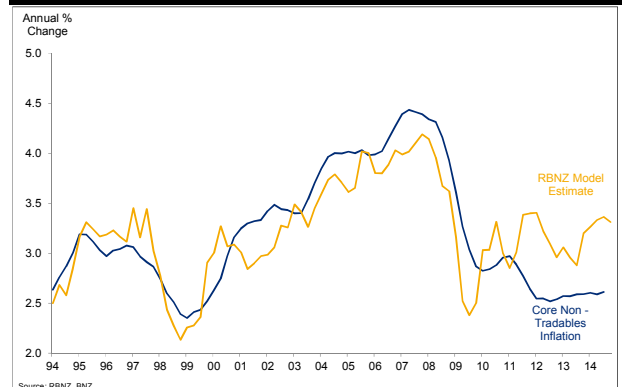
- The RBNZ assumes house price inflation settles at around 5.0% per annum. Current indications are that it could go much higher than this.
- While there are upside risks to the NZD, there are clearly downside risks too in the event that the US Fed adopts a more aggressive rate stance than the market currently prices. This is a view which we hold to.

From here it's all back to data watching for the markets. For the Reserve Bank it's more frenzied analysis trying to work out why inflation continues to surprise on the downside. In fact, today's MPS attempted to shed some light on where the RBNZ has got to in this process.

The Bank's analysis is split between developments in tradables and non-tradables inflation.

On the tradables front, the RBNZ concludes that its models are working nicely thank-you but the surprises have come via shocks to the inputs to those models. Namely, global inflation has proven to be surprisingly weak thanks largely to dramatically falling commodity prices, in general, and oil prices specifically.

### Core Non-Tradables CPI and the RBNZ Model



Where the wheels fall off is on the non-tradables side of the ledger where the Bank's models have been consistently over-predicting annual non-tradables inflation by around 0.7%. The Bank alerts us to two possible explanations for such: either the relationship between the output gap and non-tradables inflation has changed or the measures of the output gap are wrong. Much attention will be focused on this over the coming months.

What we can say, however, is that the Bank has assumed that the forecast error can be sustained for a while yet. This means there is now as much risk of an upside surprise to the inflation forecasts on the non-tradables side as there is downside risk.

Whatever the actual path of interest rates over the next few quarters, talk of rate cuts in New Zealand at any time in the foreseeable future is misguided. Such talk has risen in volume following the rush by forecasters across the Tasman to build in rate cuts in Australia. There may be some justification for such across the ditch but here there is none: growth is above trend; capacity pressures are increasing; the unemployment rate is falling; and the housing market is again building up a head of steam.

In this environment the RBNZ is very wise to maintain its tightening bias.

While there will always be those suffering duress, for New Zealand, in aggregate, Christmas 2014 is most certainly a season to be jolly. New Zealand's economic progress is the envy of many. We have:

- rising asset prices;
- strong growth;
- significant job creation; and
- no inflation.

Cause to celebrate indeed! Enjoy it while it lasts!

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### The full text of today's RBNZ OCR Review – OCR unchanged at 3.5 percent

The Reserve Bank today left the Official Cash Rate unchanged at 3.5 percent.

The global economy continues to grow at a moderate pace, though recent data suggest a softening in major economies other than the United States. Inflation remains below target in most of the advanced economies due to spare capacity and declining commodity prices. Monetary policy is expected to remain very supportive for some time.

New Zealand's economic growth is running at an annual rate of around 3½ percent. While dairy prices have declined sharply, domestic demand has retained momentum, supported by the ongoing growth in consumption and construction activity. Interest rates are low by historical standards and continue to support domestic demand. The exchange rate does not reflect the decline in export prices this year and remains unjustifiably and unsustainably high. We expect to see a further significant depreciation.

CPI inflation remains modest, at 1 percent in the year to September. Weak global inflation, falls in international oil prices and the high exchange rate are the main influences. Inflation in the non-tradeables sector remains subdued with capacity pressures having less impact than usual.

Growth is expected to remain at or above trend through 2016, with unemployment continuing to decline. Modest inflation pressures suggest the expansion can be sustained for longer than previously expected with a more gradual increase in interest rates. Underpinning this, the economy's productive capacity is being boosted by high labour force participation, strong net immigration and continued investment growth.

Risks to the growth outlook include dairy prices, which are expected to recover in 2015, the overvalued exchange rate, and the strength of construction activity. Inflation risks include the impact of rising capacity pressures on domestic inflation, the response of house prices to the strong migration inflows, and the impact of lower oil prices.

With output projected to grow at or above capacity, CPI inflation is expected to approach the 2 percent midpoint of the Reserve Bank's target range in the latter part of the forecast period. Some further increase in the OCR is expected to be required at a later stage. Further policy adjustments will depend on data emerging over the assessment period.

## A Global & Australian Economic Perspective

- Global growth slightly below trend, pick up seen in 2015, 2016
- Slower Australian growth anticipated as commodity prices retreat
- RBA to cut in 2015

### Global

Global growth remained around 3% yoy in Q3, slightly below trend but it is expected to pick-up to 3½% in 2015 and 2016. Major differences in the strength of economic activity persist between regions with the US, India and China accounting for almost 2 ppts of forecast global growth. Headwinds to growth are coming from another group of big economies including the Euro-zone, Japan, Russia and Brazil. We are revising down our oil price forecast which should help boost global growth. Much depends on the cause (supply vs demand) and duration of the oil shock. OECD models show a sustained \$20 drop in oil prices adds 0.4 ppts to OECD growth over 2 years but temporary shocks have less impact.

- Divergence in economic conditions between the big advanced economies has been highlighted in recent central bank decisions on monetary policy. The US Fed has ended its asset purchase programme, but continues to reinvest funds released from maturing securities. The Fed maintains that a near zero Fed funds rate should remain appropriate for a "considerable time". The Bank of Japan stepped up its asset buying program in late October in an effort to boost growth and inflation. The BoJ reaffirmed its intention to stick with this policy at its November meeting. Markets are now focussing most on the ECB as it grapples with a stagnating economy and very low inflation. Whether the ECB is willing to expand its asset buying to include sovereign bonds has become the most contentious issue as there is considerable opposition to that step in Germany. In contrast, the UK debate focuses on when rates should be increased.
- Global economic growth has continued at a moderate pace with industrial output expanding by around 3% yoy and business survey readings consistent with moderate growth. The pace of growth in both industrial output and exports in the emerging markets has been faster than among the advanced economies, although in both groupings the growth rate is generally running below its pre-GFC level. Inflation also differs between the major advanced and emerging economies. Globally the slide in oil and other commodity prices alongside above-trend jobless rates in the advanced economies have put downward pressure on inflation. With the exception of Japan, where April's rise in indirect taxes has boosted prices, inflation is either trending down or below target in most big advanced economies. In big emerging market economies, outside China, the situation is different with central banks in Brazil and Indonesia recently lifting rates to combat above target inflation.
- The pace of quarterly growth in the G7 advanced economies has been quickening through 2014. November business surveys show the US continuing to outperform other advanced economies with solid results in its industrial sector alongside lacklustre readings in the Euro-zone and Japan. The UK purchasing manager survey shows industrial activity picking up in November after falling quite sharply in recent months. Recent business survey results for the services sector outside the Euro-zone have been strong with rising business activity in the US, UK and Japan, although conditions in the latter remain weaker than before April's tax rise.
- The pace of economic expansion in the main emerging market economies has gradually slowed through 2014. The slowdown reflects the big downturn in South America and a modest slowing across East Asia, partially offset by faster growth in India. Industrial growth in the emerging market economies has held up around 4% yoy since late 2013 and export volumes have been rising recently (although volatile). Growth performance also varies considerably among the emerging market economies with China continuing its gradual trend slowing, Indian growth poised for an upturn after several disappointing years, weakness in South America and sluggish growth in the trade-oriented emerging market economies of East Asia.
- Although neither quarterly GDP nor the monthly trade and industry data show evidence of any acceleration in global growth, the combination of lower oil prices, monetary policy aimed at boosting activity and a slower pace of fiscal tightening in the big advanced economies should lead to growth picking up to 3½% next year.
- The outlook for continued low inflation and only a gradual erosion of advanced economy margins of spare capacity should allow central banks to keep their policy interest rates very low by historical standards. The Fed should start gradually lifting its rates from mid-2015 and the Bank of England in the third quarter but neither the ECB nor the Bank of Japan are expected to increase their policy rates next year.

## Australia

Softer commodity prices in October are expected to persist and subtract over \$25b from export earnings in 2014/15 compared with our previous forecasts. Business conditions softened in November but are largely in line with long-run averages. The employment outlook remains soft and business confidence retreated – indeed the latter is increasingly concerning. GDP growth in Q3 of 0.3% was below expectations and probably overstates the real position, but continues to point to soft (possibly even declining) demand. There are increasing risks that the mining cliff, while deferred, may turn out steeper. We have changed our view on the cash rate and now expect two cuts of 25 bp in March and August 2015 then remaining on hold until late 2016. Exchange rate forecasts to track US3 cents lower than previously expected. GDP forecasts cut reflecting weaker history and terms of trade: 2014/15 2.5% (was 2.9%); 2015/16 3.0% (was 3.2%). Unemployment rate now to peak at around 6¾% (was 6½%).

- Labour market forward indicators have been moving broadly sideways. The NAB employment index retreated to zero in November. Department of Employment internet vacancies were practically unchanged in October while ANZ job ads increased by 0.7% in November. Overall, we still expect the unemployment rate to rise above its current level (6.2%) over coming months and to track a higher path than before, peaking at around 6¾%.
- Last month's spike in business conditions was again short-lived, pulling back towards long run average levels in November. Despite the drop, the overall trend is still looking much better than 12-18 months prior and levels of capacity utilisation have continued to improve. Orders held up reasonably well, which reflects well on near-term demand. The fall in conditions was driven by all three components (sales, profits and employment), although the last remains the weakest, pointing to only very modest growth in employment – insufficient to prevent a further rise in the unemployment rate. Firm's uncertainty over the outlook for their industries was reflected in a further erosion of business confidence. Confidence levels vary greatly across industries, although the spread narrowed considerably in the month. Services have been replaced with construction as the most optimistic. Other leading indicators are mixed. Forward orders maintained last month's rise, but the 'bellwether' wholesale industry remains weak.
- The upward trend in the growth rate of retail trade continued into October. While growth of 0.4% was down sharply on September's 1.3%, the decline was more modest when account is taken of the release of iPhone 6 in September. In the NAB survey November retail trading conditions gave back some of the strong gains from the previous month but at -1 remain better than we have seen for most of the past five years. Orders remain in negative territory. Following tepid growth over the past three months, personal credit contracted marginally in October. Overall, the improvement in consumer appetite for spending appears limited at best. There are signs that some steam escaped from the residential property market in November.
- According to RP Data-Rismark dwelling prices fell 0.3% across the capital cities and, although Sydney prices rose 1.0%, Melbourne prices declined by 2.6%. Housing credit growth is still moderate at 0.6% in October and continues to be tilted towards investors, although owner-occupier credit growth has started to pick up. While historically low interest rates have driven down interest payments on housing and personal debt relative to income, housing credit growth has contributed to a rise in household debt relative to income – now approaching its peak levels of 2010. This suggests some vulnerability when interest rates are eventually tightened.
- Dwelling investment declined by 0.9% in Q3, reflecting the easing in apartment approvals mid-year. Apartment approvals seem to have resumed their upward trend, abstracting from monthly volatility, but housing approvals continue to drift. New private non-dwelling construction fell 3.6% in Q3 as the slowdown in mining investment contributed to the fourth consecutive quarterly fall in engineering construction. Nevertheless, mining construction has held up for longer than we expected; consequently, the mining pipeline has fallen faster than we foresaw. Hence, there is an emerging risk that the bulk of the decline in mining construction may be deferred into 2015 but will be steeper than anticipated.
- Softer commodities outlook and prospect of more severe deterioration in labour market mean we have changed our rate call to two cuts of 25 bp in March and August 2015, then on hold until late 2016. GDP forecasts cut reflecting weaker history and terms of trade: 2014/15 2.5% (was 2.9%); 2015/16 3.0% (was 3.2%). Unemployment rate now to peak at around 6¾% (was 6½%).

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## Carbon and Commodities

- Oil markets fall rapidly following OPEC decision not to cut production
- Saudi Arabia bullied other OPEC member states into agreeing no production cuts - many wanted 2m bpd cut
- Oversupply story continues as new production comes online, and OPEC themselves forecast a 2m bpd demand drop in 2015
- Metal prices are weaker also, responding to weaker oil prices

Commodity	US\$	Change (US\$)	Change (Fortnight)	Change (Month)	Change (Year)
Brent Crude	63.94	-2.77	-17.76%	-21.71%	-41.71%
WTI Crude	60.78	-2.90	-17.96%	-22.02%	-33.97%
Copper	6,469.00	-58.96	-2.27%	-4.66%	-9.75%
Zinc	2,166.75	-41.68	-4.51%	-3.26%	13.80%
Aluminium	1,938.75	-16.11	-6.48%	-6.05%	6.82%
Tin	20,234.00	-299.50	-0.33%	-0.05%	-11.45%
Nickel	16,258.50	-214.63	-0.30%	5.77%	16.84%

Energy and metal prices (except gold) are all lower following the outcome of the November OPEC meeting, who decided not to cut production. The Saudis stamped their weight on the meeting, and convinced the other member countries that reducing output would only benefit high cost shale producers, and result in a loss of market share. However, many other smaller members were in favour of cutting production, Iran suggested that several wanted to cut by a collective 1.5m bpd (plus an additional 0.5m from non-members).

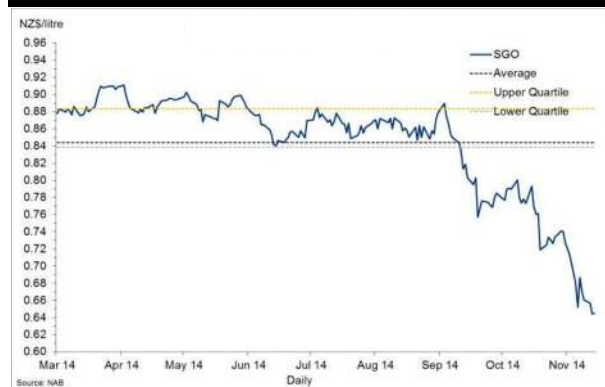
The meeting concluded on US Thanksgiving Friday, and oil fell immediately 8% in very thin holiday market conditions (Brent lost \$6 falling from \$77 to \$71, and WTI from \$73 to \$66). There was some consolidation in the following week as consumers and profit takers returned to the market and took advantage of the favourable levels. However, prices have since fallen another 8%, driven by ongoing oversupply versus demand concerns.

In a further effort to maintain market share Saudi Arabia and Iraq reduced their prices (versus benchmark) by \$1-2 for US and Asia clients. On the supply side, Iraq has also negotiated an agreement with Kurdish authorities which will see an extra 300k bpd produced from Northern Iraq, and Libya will shortly re-open the 300k bpd El Sharara field, once a pipeline blockage has been repaired. Oil's most recent fall was a result of OPEC demand forecasts for 2015 falling by 2m bpd.

The OPEC strategy to bring high cost producers to their knees by driving the price lower is extremely risky. They are receiving 20% less in price compared with pre-meeting levels, when a 5% cut in production may have favourably altered the supply/demand balance and sent a strong enough signal to the market that prices might have rallied. It will also be a long term game, as most high cost producers have extremely long-dated hedge which provide long certainty on their margins. Although many are unprofitable with Brent below \$60 it will take several years of low prices before the economics of shale productions will see a sharp drop in production.

NZ retail Diesel pump prices have fallen below \$1.30/litre, and are now better reflecting the lower importer cost of diesel (\$0.645/l). While trying to pick a bottom is very difficult, consumers whose margins will benefit from the price drop should consider hedging portions of their exposures so that they have both locked in some of the benefit, while can still enjoy a weaker price if seen.

### Spot Singapore Gas Oil



Metal prices have generally followed oil lower, as this will reduce mining and production costs in the future, and the expected correlation across commodity asset classes. Aluminium and Nickel prices have responded to recent oil price trends, but also remain historically firm as LME inventory has fallen over 20% in the last 6 months, and Nickel has been supported by a court ruling in Indonesia validating the Nickel Ore export ban.

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## NZD/USD: Looking Through The Squeeze

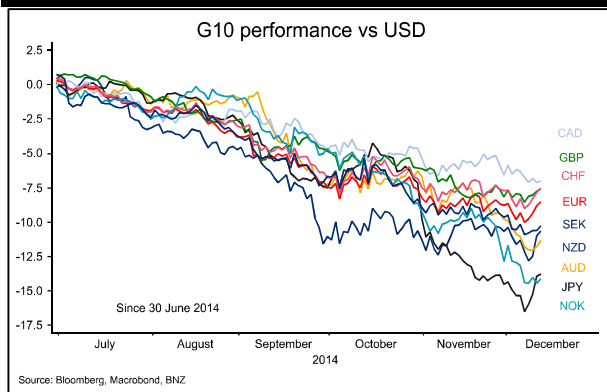
- NZD surged post-MPS, despite the RBNZ lower rates outlook
- A still-intact tightening bias, a tactically short NZD market, and broader USD sell-off caused the move
- Governor Wheeler noted his surprise that NZD had rallied – a warning, perhaps
- We remain strategically short NZD, and saw nothing from the RBNZ today to materially change that view

NZD/USD is more than 100pts higher in the wake of the RBNZ's MPS this morning. On the face of it, this is an odd result, given that the Bank lowered its interest rate projections by 10-35bps relative to September.

But we can understand the short-term squeeze higher in NZD. It comes in the context of a market that started the week looking for NZD to be substantially weaker by the end of it. Fonterra was picked to downgrade its payout forecast (ultimately correct), and the RBNZ was expected to soften its tone on interest rates, if not give up on the prospect of future hikes altogether (it didn't). The speculative community was disappointed to see the tightening bias firmly retained.

Aiding the NZD's ascent is a wider sell-off against the USD over the past few days, led by JPY. Since Monday, USD/JPY has fallen from the cusp of 122 to below 118. The broad Bloomberg Dollar Spot index is down by 1.2%.

### NZD and JPY Leading A Rally Against USD

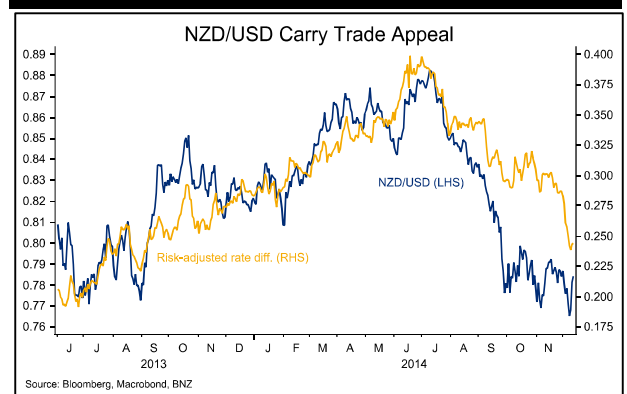


The fact that we are out-and-out NZD bears is well known, and that view has not changed as a result of today's events. We still view squeezes in NZD/USD above 0.79 as opportunities to sell, having ourselves been short from 0.7918, targeting 0.7460 initially.

Fundamentally, the outlook for NZD has not changed since we entered that short position in late November. While the RBNZ still retains a tightening bias, the fact remains that future rate hikes are being pushed well into the distance, and there is a real risk that the OCR could simply remain at 3.50% for a very long time.

Even if the RBNZ does start raising the OCR as its projections imply, we expect the Federal Reserve to be well underway in its own tightening cycle. Last week's blockbuster US employment report was a much-needed reminder of that. With FOMC members unanimously positive of the impact of falling oil prices on the US economy over coming months, we expect the Fed to sound upbeat at its meeting next week. The direction for NZ-US rate spreads is clearly lower still. Compounded with rising currency volatility, the idea that NZD should benefit thanks to carry trade appeal is much less compelling than it was in June.

### Carry Trade Much Less Compelling For NZD Than In June



Clearly, we were not the only ones surprised with the NZD's reaction this morning. Twice during the press conference, Governor Wheeler stated that he was surprised to see NZD jump. He noted that the fall in dairy prices should weigh on the currency, making clear what fundamental factors the Bank are watching with regard to NZD.

The market is now too familiar with the "unjustified and unsustainable" mantra to be scared by repetition of those words. But we are wary of the Governor's unmasked displeasure. The RBNZ prefers to play in illiquid conditions, and holiday-impaired markets into the end of the year could be just the ticket.

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## FX Momentum Model

Our model now prefers to be short AUD over being short JPY

- The shake-out of the very-short JPY market has our model turning cold on its own positions. It is now neutral on NZD/JPY (from long) and short AUD/JPY (from neutral). It is still short JPY against the USD.
- Being short AUD has become more compelling, as AU commodity prices tumble and pressure increases on the RBA to cut rates. Our model is short AUD against the USD, NZD, and JPY.
- The model still prefers to be long USD, but is losing money on some of those positions (NZD, EUR, CHF).

The model's view on NZD is decidedly mixed.

- Having entered a short NZD/USD when it dropped below 0.77 early this week, the NZD's rally above 0.78 post-RBNZ has left that position underwater.
- On the crosses, only the long position against the AUD is gaining ground. The short NZD/EUR position is also loss-making, and the model recently gave up its long position on NZD/JPY.
- NZD/GBP has been a bit of a disaster for the model. Since the last update, it has been stopped out of its long position, was compelled to enter a short position, and stopped out of that, too. As regular readers will know, tight ranges (and brief trips outside them) are the bane of momentum models.

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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 previous 10-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

11-Dec-14

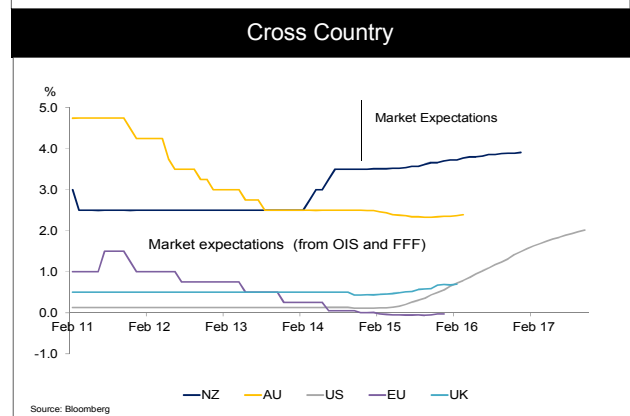
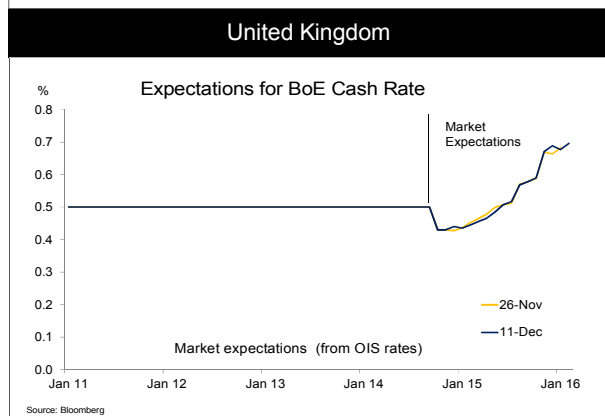
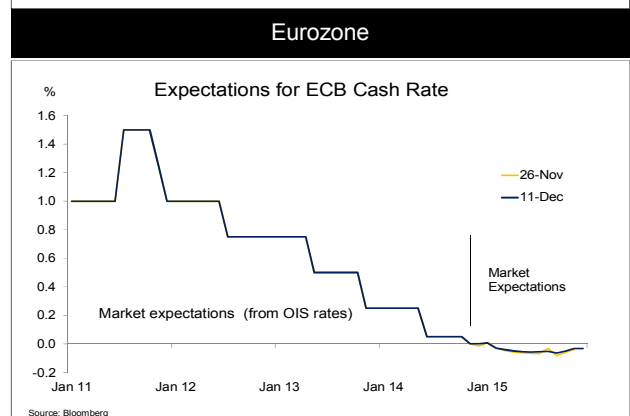
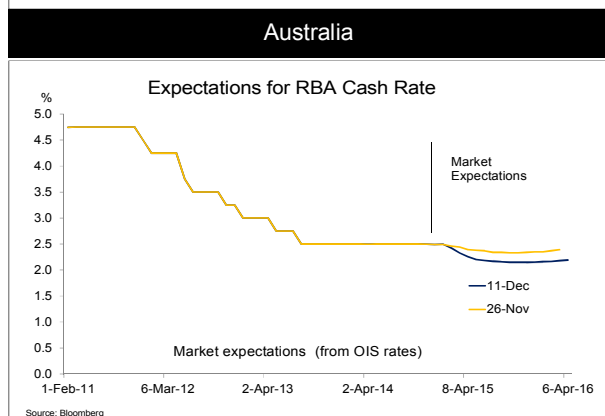
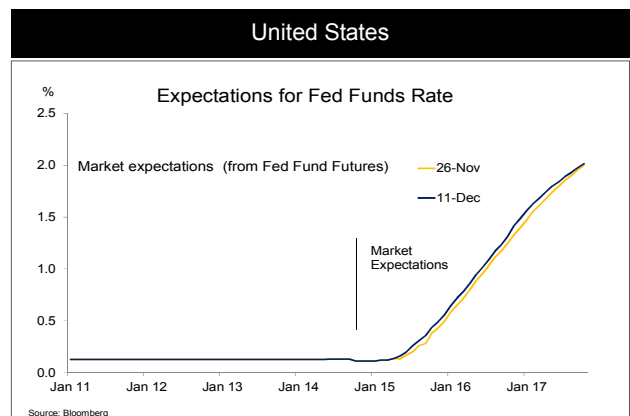
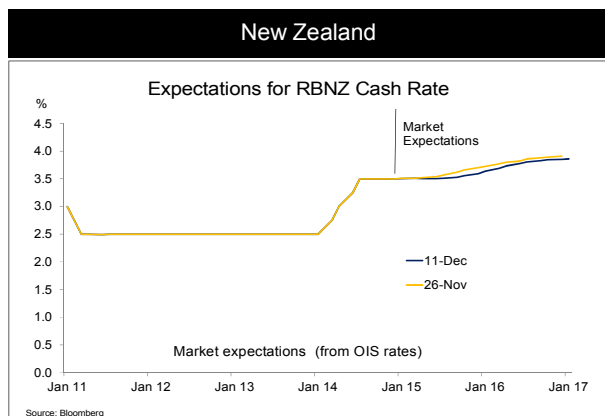
Currency pair	Position	Entry date	Entry level	Mkt	Return	Stop	Long trigger	Short trigger
NZD/USD	Short	08-Dec-14	0.7700	0.7798	-1.3%	0.7893		
NZD/AUD	Long	17-Nov-14	0.9103	0.9381	3.1%	0.9186		
NZD/EUR	Short	09-Dec-14	0.6211	0.6269	-0.9%	0.6333		
NZD/GBP	Neutral	11-Dec-14	0.4968	0.4965			0.5097	0.4868
NZD/JPY	Neutral	09-Dec-14	91.83	92.25			93.98	90.67
AUD/USD	Short	04-Nov-14	0.8652	0.8314	3.9%	0.8615		
AUD/JPY	Short	09-Dec-14	98.98	98.36	0.6%	101.18		
DX	Long	31-Oct-14	86.75	88.32	1.8%	87.53		
EUR/USD	Short	03-Dec-14	1.2358	1.2438	-0.6%	1.2524		
GBP/USD	Short	03-Oct-14	1.6052	1.5708	2.1%	1.5826		
USD/JPY	Long	31-Oct-14	109.90	118.30	7.6%	117.24		
USD/CHF	Long	03-Dec-14	0.9742	0.9675	-0.7%	0.9599		
USD/CAD	Long	05-Dec-14	1.1459	1.1483	0.2%	1.1272		

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: Pulling Apart

- Expectations for the RBNZ's cash rate have not changed significantly in the aftermath of this week's RBNZ meeting. The market looks for less than 50bps of rate hikes over the next two years.
- The market has ramped up its expectations for rate cuts from the RBA over the past fortnight. It now sees around 35bps of cuts by Q3 next year. This has increased from 17bps a fortnight ago.
- The Fed is seen raising its policy rate from around Q3 next year according to pricing from Fed Funds futures. The market then sees a gradual progression to take the Fed Funds rate to 2.00% by the end of 2017.
- Over the past fortnight expectations for the Bank of England's target rate have not changed significantly. The market prices around an 80% chance that the BoE's cash rate will be 25bps higher by early 2016. This timing has been gradually pushed back. Earlier this year the market was pricing a first BoE hike by early 2015.
- Meanwhile the market continues to expect little movement in the ECB's cash rate over the forecast horizon given rates are already at/below zero. Rather the market continues to obsess over when the ECB will implement full QE via purchasing sovereign bonds.

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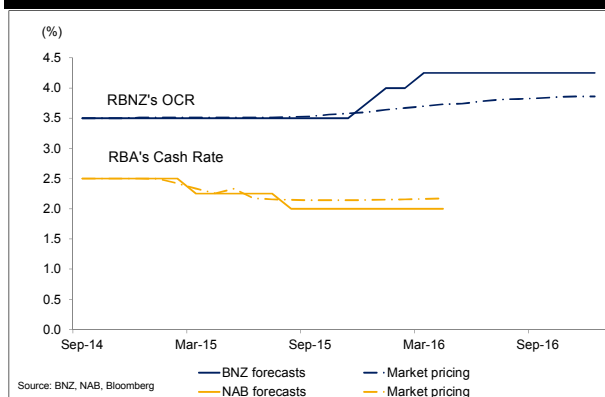
## Interest Rate Strategy: Trans-Tasman Currents

- The prospect of RBA cuts does not change our view the next move for NZ rates will be higher
- But near-term we would receive short-end NZ rates
- And avoid being aggressively short NZGBs
- NZ 10-year bond 'buy zone' above 4.50%
- NZ-AU 2-year spreads to widen above 170bps
- NZ-AU23s range to rise to 70-120bps in 2015

This week our NAB colleagues revised their expectations for RBA activity, to include two 25bps rate cuts in 2015 (the first in March). This is a little more than the 36bps of cuts the market currently prices by Q3 next year.

By contrast, this week's RBNZ meeting has firmed our conviction in that the next move for the RBNZ's cash rate is likely higher. Our OCR forecasts remain unchanged. We see a first hike in December 2015 (with risks tilted toward delay) and a peak OCR of 4.25% in 2016. This compares to the market that is pricing a first hike by mid-2016 and an OCR that does not get above 4.00% in this cycle.

### Forecasts For RBNZ And RBA Cash Rates



These trans-Tasman views have implications for our expectations for NZ outright yields and NZ-AU spreads.

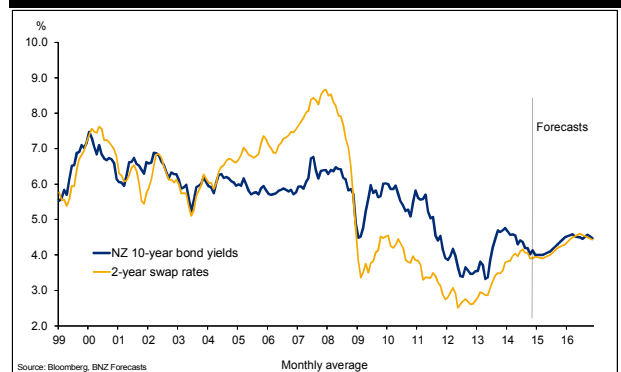
First on outright. Although, we suspect the market marginally under-estimates the ultimate peak in the NZ OCR, we do not recommend trading this view in the near-term. If anything, data in coming months (particularly CPI readings) will fuel expectations of an RBNZ going nowhere for a long time. Near-term we therefore prefer to receive the NZ front-end near to benefit from carry. Within the 3.80%-4.00% range we envisage for 2-year swap in H1, we would receive, approaching 3.95%. The prospect/delivery of an RBA cut in H1 will also limit the near-term rise in NZ short-end swaps.

It is only if the NZ market begins to price OCR cuts by the end of next year (particularly if prompted by global events with little direct bearing on NZ) that we would look

to be aggressive payers of the NZ short-end. This would be a scenario where 2-year swap was sub-3.60%. We believe the NZ cash rate is still some way below 'neutral' and the RBNZ is far from contemplating cutting rates. Our realistic 'low-side' scenario would still be one of no further rate hikes, rather than outright cuts.

Recent changes to our AU view have also caused us to slightly lower outright forecasts for NZ long-end yields. Despite our expectation that US long yields will rise next year (US 10-year to 3.0% by year-end) we believe contained AU yields will limit the rise in NZ long yields. We would now see the long-term 'buy zone' for NZ 10-year bonds being above 4.50%. We see this level being reached by late 2015/early 2016.

### In H1 We Would Look To Receive 2-Year Swap



In the early part of the year however, we would not be aggressively short NZGBs. Carry will continue to favour longer-dated NZGBs and we do not expect a harsh sell-off while the market toys with the idea of RBA rates cuts, and the RBNZ is firmly on hold. In this respect, we continue to expect the NZ long-end to outperform the US. We see NZ-US spreads moving into lower ranges in 2015.

### Wider NZ-AU 2-Year Spreads Ahead



We have shifted our preferred bias for trading NZ-AU spreads. We now prefer to position for spread widening at both ends of the curve, although more pronounced at the short-end. Our central forecasts now see NZ-AU cash rate differentials widening to a peak of 225bps in early 2016. Spreads have historically been close to this level (200bps) in mid-2007. At that time, NZ-AU 2-year spreads were around 160bps. We would look for NZ-AU 2-year spreads to widen out to above 170bps, but recognise that trading this view is burdened by 2bps/mth of negative carry.

We essentially still see NZ-AU long-end bond spreads as being range-bound, but in a higher range than in 2014. We see a 70-120bps range in 2015 (currently 100bps).

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## Credit Market News

**Goldman Sachs Group** printed a NZ\$300m new 5yr Global at swap+118bps

**LGFA** sold NZ\$130m of bonds at their last tender for 2014: NZ\$15m of 2017s, NZ\$20m of 2019s, NZ\$25m of 2020s and NZ\$75m of 2023s

**Trustpower** raised NZ\$105m from a new 7yr bond sale at 5.63%

**KFW** increased their 06/2018 EMTN by NZ\$50 and their 08/2017 EMTN by NZ\$75m

**Precinct Properties** announced a retail bond offer of up to NZ\$75m at an indicative range of swap+130-145bps.

**IBRD (World Bank)** printed a NZ\$250m tap of their 10/2021 Kauri at swap+22bps

**Nelson City Council** printed a NZ\$5m 6yr FRN at BKBM+37bps

**Kiwibank** printed a HKD232m 11/2017 EMTN

**Export-Import Bank of Korea** printed a NZ\$55m EMTN

S&P affirmed the AA-/A-1+/positive outlook rating on **Nelson City Council**

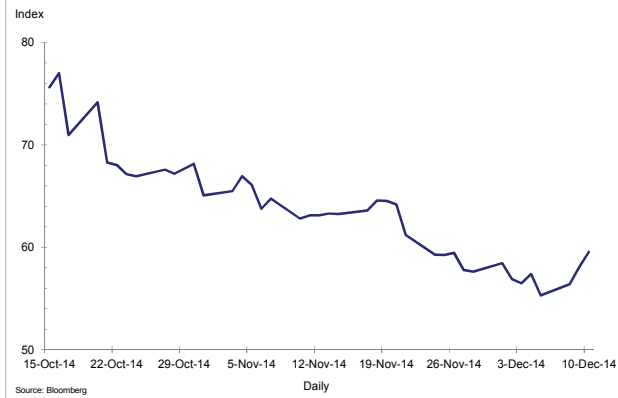
S&P affirmed the AA-/A-1+/stable outlook rating on **Dunedin City Council**

S&P affirmed the BBB rating on **Chorus** and revised its outlook to stable after the draft regulatory pricing decision by the NZ Commerce Commission.

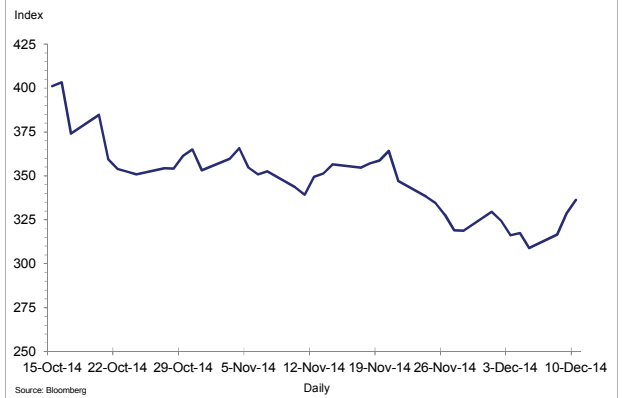
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## Global Credit Indices

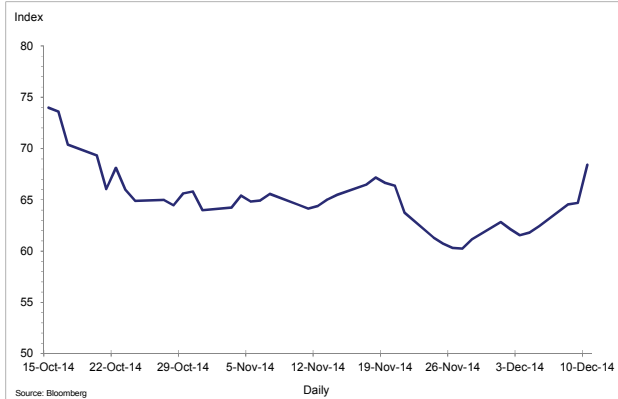
iTraxx Europe Investment Grade Index



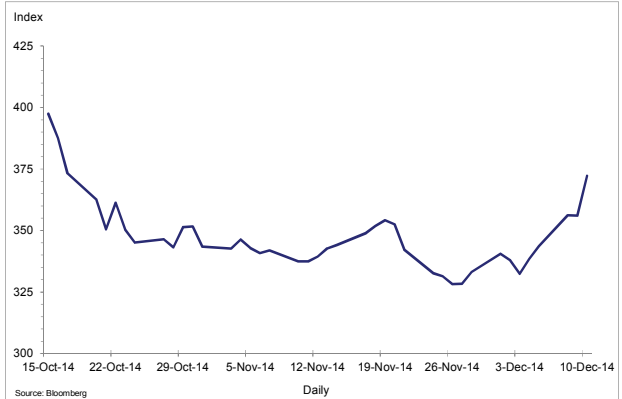
iTraxx Europe Crossover Index



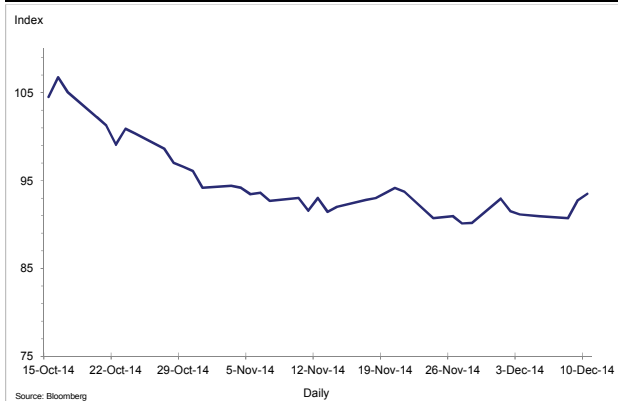
CDX North America Investment Grade Index



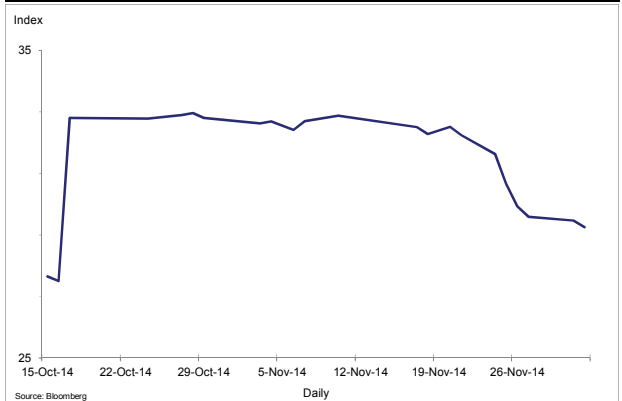
CDX North America High Yield Index



iTraxx Australia Index



iTraxx Western Europe Sovereign Index



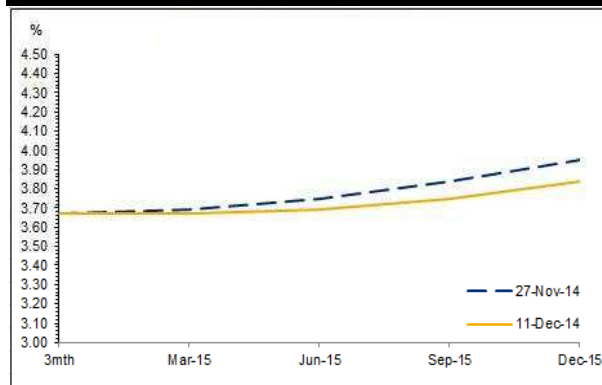
## Money Market Strategy

- MPS released today largely as expected
- Currency will cause the RBNZ to scratch its head

Today the Reserve Bank released their last MPS for 2014. As expected they held onto their tightening bias and remain in a period of data assessment. The next hike was penciled into the 90day bankbill track around the end of 2015. The risk is this hike being pushed further away, therefore market pricing was pretty well justified and market pricing remained steady over the release, following offshore moves lower in yield from the overnight price action. Cuts were not mentioned by the Reserve Bank as they continue to see through the recent drop in oil prices as a temporary impact to inflation. As temporary as it is, we are still looking at consecutive quarters of CPI below 1.0% and weaker inflation expectations. Overnight we have seen continued selling in oil which has so far showed no sign of bottoming out in price.

After the MPS release the Kiwi dollar bounced over 100 points, on the same print which didn't budge the rate market. One could see this move as bullish Kiwi while the Reserve Bank will be fairly frustrated by the move. The currency has come off in recent times but it could struggle to have a significant move lower with our central bank still on a tightening bias while other nations (bar the US) may cut rates or look to switch their currency printers

NZ 3mth Bill and BBC Futures



on to eek out some growth and inflation in their own economies. The conditions at the moment are simply not letting the Reserve Bank to further increase the OCR above 3.50% and we will remain here for the foreseeable future.

Sep 15 96.24 – 96.30

Dec 15 96.15 – 96.22

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## NZ Economic Review

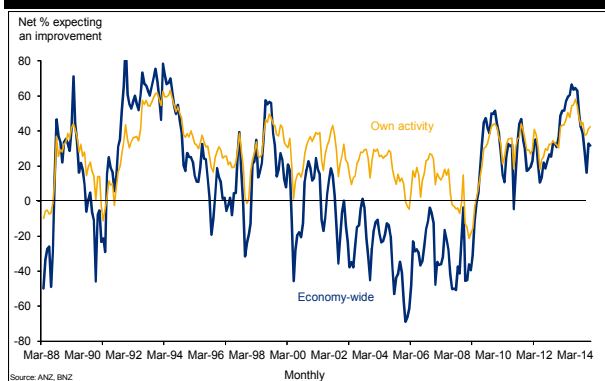
### Building Consents (Oct) – 28 November

Residential dwelling consent numbers rebounded a seasonally adjusted 9% in October, following their curious 12% fall the month before. Meanwhile, non-residential consents, smoothing over the last 3 months, posted annual growth of around 22%.

### ANZ Business Survey (Nov) – 28 November

Business confidence rebounded further – to a net +31.5, from +26.5. Own-activity expectations were even plumper in November – at +41.7, from +37.8 – suggesting GDP growth will move above 4% over the course of calendar 2015. Nonetheless, the survey's inflation bells were dampened this month, with general inflation expectations for the year ahead down to 2.1%, from 2.5%, while pricing intentions eased to +20.2, from +24.2 in October.

### Business Expectations – Seasonally Adjusted



### Credit Aggregates (Oct) – 28 November

Growth in housing credit picked up to 0.4% in October, from 0.3%. But it was the further acceleration in consumer credit that really caught our eye. At an annual 7.2%, from 6.8% it was the swiftest rate of increase since 2005. Annual growth in business credit firmed to 4.9%, from 4.2%, while for agriculture increased to 3.7%, from 2.9%.

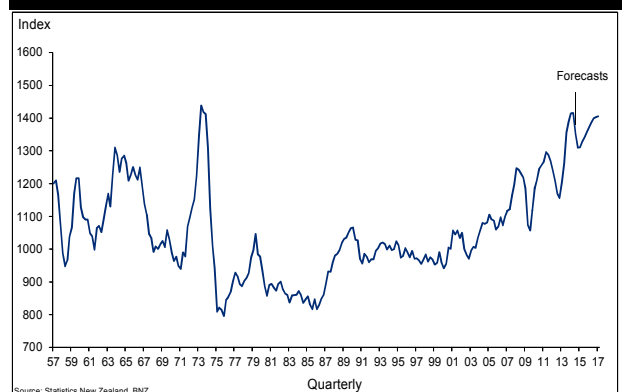
### Housing Borrowing



### Overseas Trade Indexes (Q3) – 1 December

These OTI data recorded a 4.4% fall in the merchandise terms of trade, from the 41-year record high marked in the June quarter. This reflected correcting dairy export prices, which has further to play out in the Q4/Q1 data. Still, most other export prices are relatively robust. Also supporting the terms of trade are plunging oil prices, via softening import prices. The Q3 export volume measure, meanwhile, was surprisingly flat, on forestry, although core import growth looked robust.

### Terms of Trade – OTI Goods



### ANZ Commodity Export Prices (Nov) – 2 December

World prices for NZ's major primary export products fell 1.6% in November, much in line with our thinking. Prices have fallen for 9 consecutive months and are down 12.4% on a year ago. This reinforces our view that the terms of trade will decline further in Q4 2014 and Q1 2015, following its 4.4% fall in Q3.

### International (GDT) Dairy Auction – 3 December

The GDT price index fell a further 1.1%. Prices are clearly weak and are down near 50% from a year ago. What we take away from this auction is near term weakness, but some encouraging signs for the future. Chinese buyers appear cautious – given they are the major buyers of WMP which fell 7.1% in price at this auction. However, the longer-dated WMP prices have a premium while prices for non-WMP prices clearly rose at this auction – a sign that Russia's import ban might be fully digested.

### Building Work Put in Place (Q3) – 3 December

Building Work Put in Place logged a 1.5% increase in volume for Q3, for an annual gain of about 17%. While a little slower than we anticipated, the reason for this, a 0.7% slip in residential work, looked technical more than anything else. More generally, the NZ construction industry looks likely to keep putting on the pounds over the next year or two – partly as Canterbury's reconstruction hits its straps but also as the rest of the country plays catch-up in terms of not just home-building activity but also non-residential work.

### Wholesale Trade (Q3) – 5 December

The seasonally adjusted value of wholesale trade increased 0.7% in the September quarter. This was a bit shy of our expectation of +1.0%.

### Manufacturing Sales (Q3) – 8 December

These Q3 manufacturing data inferred a nice bounce in the industry's production. And much more so than the 0.4% increase in sales volumes reported by Statistics NZ. This, along with the rebound we assume for agriculture processing in the quarter (after a negative Q2), and technical support from inventory rebuilding, has us judging a 2.5% increase in manufacturing output in Q3, after a flat patch over Q1/Q2. This provides a backbone to the 0.9% lift we expect of Q3 GDP (due 18 December)

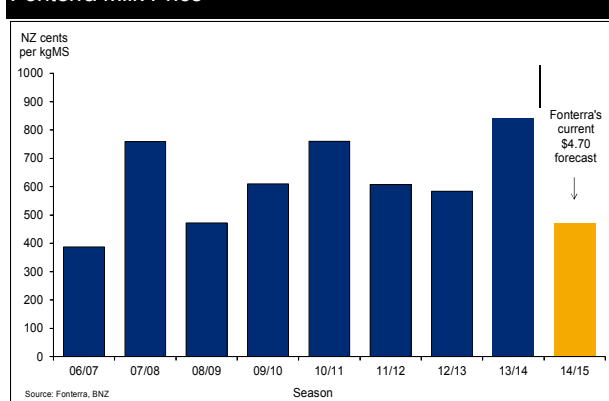
### Electronic Card Transactions (Nov) – 9 December

November's value of electronic card transactions slipped a seasonally adjusted 0.3%. Their retail component eased 0.1%. But this needs to be seen in the content of the +1.0% lift in October for retail ECT, and +1.5% in total. There was also the plunge in fuel prices to consider for November. But unless there is a very nasty ECT number for the month of December, Q4 retail volumes will probably expand at least 1.0%, keeping annual growth above 4.5%.

### Fonterra Payout Forecast – 10 December

Fonterra cut its milk price forecast to \$4.70 per kilogram of milksolids from \$5.30 previously, while maintaining its dividend range at 25c to 35c per share. While affirming a sizable detriment to the economy ahead it was no worse than generally expected. Fonterra said it is seeing 'a number of factors that are delaying a sustained return to higher global prices'.

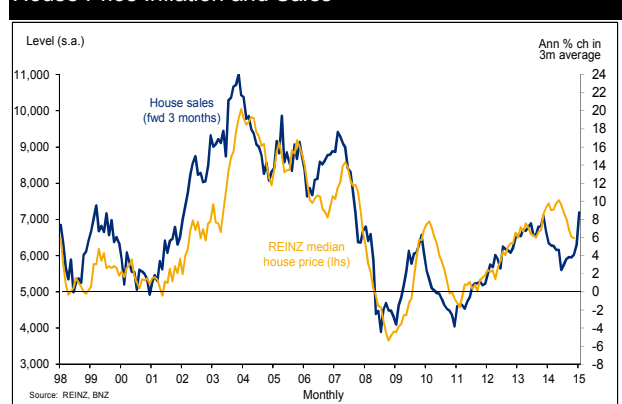
### Fonterra Milk Price



### REINZ Housing Report – 10 December

The Real Estate Institute's residential market results for November were pretty perky. It wasn't so much the 6% annual lift in sales, but the fact this implied a 14% jump in the month, on our seasonally adjusted estimates. This, following on from the 5% increase in October, looks very much like the housing market getting back in the saddle, after a measure of caution leading into September's general election. While Auckland still very much dominates the momentum (with annual price inflation of 9.4%), Canterbury is close to matching that pace, Waikato/Bay of Plenty appears to be starting to move (one to watch), while data from the rest of the country remains mixed, albeit with the anecdote firming, by and large.

### House Price Inflation and Sales



### RBNZ Monetary Policy Statement – 11 December

At today's MPS the Reserve Bank acknowledged that inflation continues to surprise to the downside. Consequently, it has moderated its interest rate track. Nonetheless, it remains on a tightening bias, which seemed to have surprised the foreign exchange market. It shouldn't have. See our lead article for more on today's Statement.

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## NZ Upcoming Data/Events

### BNZ Manufacturing PMI(Nov) – 12 December

New Zealand's Performance of Manufacturing Index reached a 16-month high of 59.3 and the employment index an all-time survey high of 57.5 in October. It could give a bit from these levels and still remain robust.

### ANZ-RM Consumer Confidence (Dec) – 12 December

Consumer confidence stood at 121.8 in November, to be a few points above its long term average. We wouldn't be surprised to see something similar in December. Rural regions may be feeling less confident given the likes of spreading dry conditions and dairy price reductions. But, more generally, on the positive side there is a strong labour market, sharp reductions in fuel prices amid generally low inflation, a reheating Auckland housing market and buoyant activity.

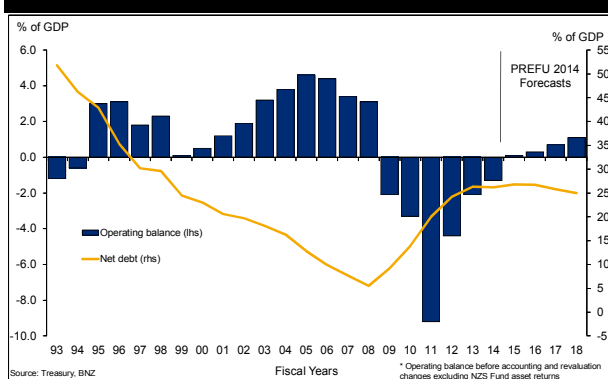
### BNZ Services PSI(Nov) – 15 December

The Performance of Services Index has been barreling along in the mid-to-high 50s over recent months. Anything close to October's 57.8 result would be consistent with ongoing strong growth.

### Government's HYEPU – 16 December

All (political) eyes will be on whether the 2014/15 surplus will be maintained or not, however slim. But economically, it doesn't matter if it is a small positive or small negative. The trajectory of the fiscal accounts is still likely to look favourable (especially relative to elsewhere in the world), albeit a little more challenging than previously as the nominal economy is squeezed by the likes of falling dairy prices and little inflation. That is despite the real economy cruising along quite nicely.

### Core Fiscal Balance and Net Debt



### Dairy Auction – 17 December

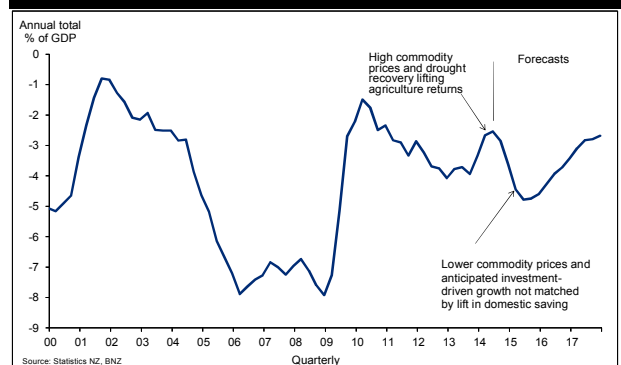
Fonterra has revised down its milk price forecast to \$4.70. Downside risks still loom. This forecast includes a recovery in world prices over coming months. The risk seems to be that this does not happen or does not happen fast enough. This auction will provide the very latest guide to how dairy prices are tracking. While the GDT price index fell 1.1% at the previous early-December

auction, there were some encouraging signs in the detail. But it is difficult to get too optimistic given further falls in other commodity prices, most notably oil.

### Balance of Payments (Q3) – 17 December

The annual current account deficit narrowed to a reasonably small 2.5% of GDP in the year to June 2014. We see a change of direction from here as the likes of the plunge in dairy prices filters into the accounts. The 2.8% ratio we see for the year to September 2014 deficit is the start of a widening towards 5% through mid-2015.

### Current Account Balance



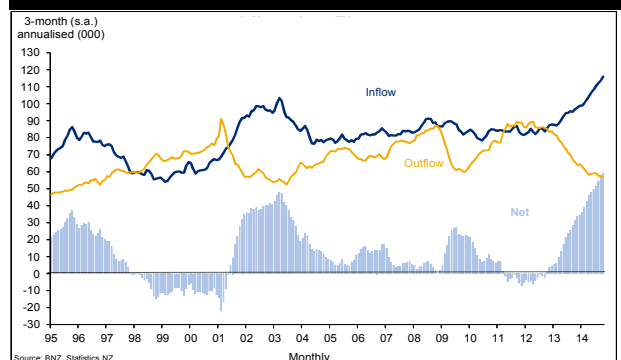
### GDP (Q3) – 18 December

We expect a 0.9% real quarterly gain, but also watch for yet further revisions to recent history as Statistics NZ integrates the latest year-to-March GDP information into the quarterly accounts.

### Int'l Travel and Migration (Nov) – 19 December

It's bigger than Ben Hur – the net inflow of migrants to New Zealand that is. The net inflow is certainly the biggest we've ever seen since that epic MGM film was released back in 1959. In fact this migration boom is the biggest we have ever seen. For November, anything remotely close to October's seasonally adjusted monthly gain of 5,250 on a permanent and long term basis would simply reinforce the point.

### Migration Flows



**ANZ Business Survey (Dec) – 19 December**

Business confidence and firms' own activity expectations lifted in November to 31.5 and 41.7 respectively. It points to well above trend growth ahead, a view supported by other details of that survey. Nonetheless, inflation signals eased a bit. More of the same in December?

**WMM Consumer Confidence (Q4) – 22 December**

This quarterly measure of consumer confidence dipped to 116.7 in Q3, heading into the September General Election. A mild post-election bounce is possible, but equally confidence could ease a bit further given movements in the ANZ-RM monthly survey. Look at the chart – do you prefer levels or changes in making a forecast? We'd be surprised if it fell too far, given the consumer positive of a strong labour market, lower fuel prices, and a reheating housing market.

NZ Consumer Confidence

**Credit Aggregates (Nov) – 22 December**

There were hints of acceleration creeping into the credit aggregates in October across households, agriculture and business to varying degrees. Annual growth is not raging away, but at 4.7%, 3.7% and 4.9% respectively, it is not particularly slow either. We don't expect November's figures to be too different in pace.

**Merchandise Trade (Nov) – 23 December**

We see the value of exports down 8% on year earlier levels, as the new dairy season's milk is exported at lower prices. Imports are expected to be up 1% on a year ago, as domestic-demand-driven import strength is enough to offset lower oil prices. It all adds up to a \$245m monthly deficit that would see the annual deficit widen further to \$505m.

**LVR Ratio (Nov) – 23 December**

The proportion of "high" (>80%) loan-to-value residential lending pushed above 7% in September and October. It's double what it was earlier in the year, although still comfortably below the RBNZ's 10% speed limit so a bit of scope to potentially further juice the housing market. Not that it seems to need any.

**ANZ Commodity Export Prices (Dec) – 8 January**

The downswing in commodity prices continues. We expect a fall of around 1% in average prices for NZ's major primary export products in December, whether expressed in world currency terms or NZ dollars. This would be the 10<sup>th</sup> consecutive monthly decline in world prices.

**Building Consents (Nov) – 9 January**

Residential building consents were very volatile in September and October. Annual growth averaging 12% over recent months gives a fair view of how things are fundamentally tracking. Another wiggle in November one way or the other is unlikely to shift us from our constructive view ahead given the still-positive forward indicators. Ditto for non-residential building consents.

**Electronic Card Transactions (Dec) – 14 January**

After a strong 1.5% surge in October, the value of electronic card transactions only eased 0.3% in November. This means even a modest gain in real December would imply a strong increase in real retail sales volumes for the quarter as a whole. This conclusion would not be undone if transaction values fell due to lower petrol prices.

**QSBO (Q4) – 20 January**

This is the first major NZ economic release of the New Year. It will likely set the tone for the RBNZ's late January OCR Review, assuming the Bank can look through the fuel-driven softness in the CPI. The previous Quarterly Survey of Business Opinion showed elements of caution, possibly associated with the September General Election, but was robust at heart and strong in outlook. Confidence sat at +19 in Q3. Moreover, pricing reports in the previous QSBO were perky. While the latter may be dampened by recent commodity price declines, especially oil, any post-election wriggle on in the activity indicators would support the RBNZ's, and our, view that further rate hikes will ultimately be required. It is worth noting that this survey does not directly include the farming sector generally or dairy sector specifically.

**CPI (Q4) – 21 January**

Consumer price inflation is fast doing a Houdini. After falling to 1.0% in Q3, with see annual inflation declining further to 0.8% in Q4. This includes a 0.1% decline in Q4 itself, driven specifically by seasonally lower food prices and plunging oil prices and more generally by the depressing effects of weak world inflation and currency strength. The sharp, and recent, fall in oil prices is likely the reason why we see Q4 annual inflation below the RBNZ's 1.0% forecast published in today's MPS. We see annual inflation pushing lower still in Q1 2015.

**RBNZ OCR Review – 29 January**

As we write in mid-December, this January Review is likely to reiterate the December MPS message of on-hold now but still expect to raise the OCR at some stage. This of course assumes no major shocks between now and then either globally or locally.

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## Quarterly Forecasts

Forecasts as at 11 December 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.)	0.4	1.1	0.9	0.9	0.5	0.9	1.0	0.8	0.9	0.5
Retail trade (real s.a.)	1.2	0.3	1.2	1.0	1.1	1.5	1.3	0.9	0.8	0.7
Current account (ytd, % GDP)	-3.7	-3.9	-3.3	-2.7	-2.5	-2.8	-3.6	-4.4	-4.8	-4.7
CPI	0.2	0.9	0.1	0.3	0.3	0.3	-0.1	-0.1	0.5	0.5
Employment	0.5	1.3	1.0	0.9	0.5	0.8	0.9	0.9	0.8	0.6
Unemployment rate %	6.4	6.1	6.0	6.0	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	3.4	3.4	3.6	3.5
Trading partner GDP (ann %)	3.3	3.7	4.1	4.2	4.0	3.9	3.9	3.9	4.2	4.1

Forecasts

### Interest Rates

Historical data - qtr average

Forecast data - end quarter

	Cash	Government Stock			Swaps			US Rates		Spread
		90 Day	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	3.70	3.70	4.00	3.95	4.10	4.40	0.25	2.35	1.65
2015 Mar	3.50	3.70	3.65	4.00	3.90	4.10	4.45	0.45	2.50	1.50
Jun	3.50	3.75	3.80	4.10	4.00	4.20	4.50	0.70	2.50	1.60
Sep	3.50	3.75	3.90	4.30	4.20	4.35	4.75	0.95	2.75	1.55
Dec	3.75	4.15	4.10	4.50	4.30	4.60	5.00	1.20	3.00	1.50
2016 Mar	4.25	4.50	4.20	4.60	4.50	4.70	5.10	1.70	3.25	1.35
Jun	4.25	4.50	4.20	4.50	4.60	4.70	5.00	1.95	3.25	1.25
Sep	4.25	4.50	4.20	4.55	4.50	4.70	5.10	2.35	3.25	1.30
Dec	4.25	4.50	4.05	4.40	4.40	4.60	4.95	2.70	3.00	1.40
2017 Mar	4.25	4.50	4.40	4.80	4.40	4.80	5.25	3.20	3.25	1.55

### Exchange Rates (End Period)

#### USD Forecasts

	EUR/USD	USD/JPY	GBP/USD	NZD/USD	AUD/USD
Current	1.2483	117.57	1.5747	0.7832	0.8367
Dec-14	1.2200	115.00	1.5800	0.7600	0.8300
Mar-15	1.1800	117.00	1.5400	0.7400	0.8100
Jun-15	1.1400	120.00	1.5200	0.7300	0.8000
Sep-15	1.1300	122.00	1.5000	0.7100	0.7900
Dec-15	1.1200	123.00	1.5000	0.7000	0.7800
Mar-16	1.1100	124.00	1.4800	0.6900	0.7700
Jun-16	1.1000	125.00	1.4700	0.6800	0.7600
Sep-16	1.1000	125.00	1.4600	0.6700	0.7500
Dec-16	1.1000	125.00	1.4700	0.6600	0.7500
Mar-17	1.1100	124.00	1.4700	0.6600	0.7600

#### NZD Forecasts

	NZD/EUR	NZD/JPY	NZD/GBP	NZD/USD	NZD/AUD	TWI
Current	0.6274	92.08	0.4974	0.7832	0.9361	78.4
Dec-14	0.6230	87.40	0.4810	0.7600	0.9157	76.4
Mar-15	0.6271	86.58	0.4805	0.7400	0.9136	75.8
Jun-15	0.6404	87.60	0.4803	0.7300	0.9125	76.0
Sep-15	0.6283	86.62	0.4733	0.7100	0.8987	74.5
Dec-15	0.6250	86.10	0.4667	0.7000	0.8974	74.0
Mar-16	0.6216	85.56	0.4662	0.6900	0.8961	73.5
Jun-16	0.6182	85.00	0.4626	0.6800	0.8947	72.9
Sep-16	0.6091	83.75	0.4589	0.6700	0.8933	72.1
Dec-16	0.6000	82.50	0.4490	0.6600	0.8800	71.0
Mar-17	0.5946	81.84	0.4490	0.6600	0.8684	70.5

#### 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 11 December 2014	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016
<b>GDP - annual average % change</b>										
Private Consumption	2.5	3.3	3.7	3.0	1.0	2.7	3.2	3.3	3.5	1.4
Government Consumption	-1.4	1.6	2.3	0.7	0.6	-1.4	0.7	2.9	0.6	0.9
Total Investment	7.3	10.9	8.9	5.2	1.4	7.2	9.8	9.3	6.3	2.4
Stocks - ppts cont'n to growth	-0.4	0.3	0.4	-0.4	0.0	0.1	0.0	0.4	-0.3	-0.1
GNE	2.2	4.8	4.5	2.8	1.0	2.8	4.1	4.6	3.2	1.5
Exports	3.0	0.3	2.1	4.2	4.0	1.7	1.1	2.9	3.1	4.0
Imports	1.3	8.0	6.3	3.0	2.6	2.7	6.3	7.2	3.3	2.9
Real Expenditure GDP	2.7	2.5	3.2	3.1	1.4	2.6	2.6	3.2	3.2	1.8
<b>GDP (production)</b>	<b>2.7</b>	<b>2.8</b>	<b>3.3</b>	<b>3.1</b>	<b>1.3</b>	<b>2.9</b>	<b>2.6</b>	<b>3.4</b>	<b>3.3</b>	<b>1.8</b>
<i>GDP - annual % change (q/q)</i>	2.4	3.3	3.3	2.6	0.7	3.2	2.5	3.4	3.0	0.9
Output Gap (ann avg, % dev)	0.1	0.4	0.9	1.5	0.5	-0.1	0.4	0.7	1.5	0.9
Household Savings (gross, % disp. income)	5.3	5.3	4.5	5.0	6.9					
Nominal Expenditure GDP - \$bn	211.4	225.6	231.5	243.4	253.0	209.7	220.7	231.3	239.7	251.3
<b>Prices and Employment - annual % change</b>										
CPI	0.9	1.5	0.4	1.7	2.5	0.9	1.6	0.8	1.2	2.6
Employment	0.4	3.7	3.1	2.2	1.0	0.4	3.0	3.1	2.7	1.3
Unemployment Rate %	6.2	6.0	5.3	5.6	5.9	6.8	6.0	5.4	5.4	5.9
Wages - ahote	2.3	2.9	3.4	3.9	3.0	2.6	3.2	3.4	3.6	3.2
Productivity (ann av %)	1.8	0.4	0.3	0.3	-0.1	2.3	0.6	0.3	0.3	0.1
Unit Labour Costs (ann av %)	1.1	2.3	1.7	3.3	3.5	0.8	1.9	2.2	2.8	3.5
<b>External Balance</b>										
Current Account - \$bn	-8.0	-6.0	-10.3	-10.4	-7.8	-8.5	-7.4	-8.4	-11.0	-8.6
Current Account - % of GDP	-3.8	-2.7	-4.4	-4.3	-3.1	-4.1	-3.3	-3.6	-4.6	-3.4
<b>Government Accounts - June Yr, % of GDP</b>										
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					
<b>Financial Variables <sup>(1)</sup></b>										
NZD/USD	0.83	0.85	0.74	0.69	0.65	0.83	0.82	0.76	0.70	0.66
USD/JPY	95	102	117	124	125	84	103	115	123	125
EUR/USD	1.30	1.38	1.18	1.11	1.10	1.31	1.37	1.22	1.12	1.10
NZD/AUD	0.80	0.94	0.91	0.90	0.89	0.79	0.92	0.92	0.90	0.88
NZD/GBP	0.55	0.51	0.48	0.47	0.44	0.52	0.50	0.48	0.47	0.45
NZD/EUR	0.64	0.62	0.63	0.62	0.59	0.63	0.60	0.62	0.63	0.60
NZD/YEN	78.5	87.1	86.6	85.6	81.3	69.5	85.1	87.4	86.1	82.5
TWI	76.1	79.7	75.8	73.5	70.3	74.3	77.5	76.4	74.0	71.0
Overnight Cash Rate (end qtr)	2.50	2.75	3.50	4.25	4.25	2.50	2.50	3.50	3.75	4.25
90-day Bank Bill Rate	2.65	3.06	3.70	4.50	4.50	2.66	2.74	3.70	4.17	4.50
5-year Govt Bond	3.09	4.11	3.65	4.21	4.38	2.93	4.23	3.70	4.08	4.04
10-year Govt Bond	3.72	4.58	4.00	4.58	4.81	3.54	4.76	4.00	4.50	4.41
2-year Swap	2.92	3.97	3.90	4.50	4.40	2.70	3.79	3.95	4.30	4.40
5-year Swap	3.47	4.57	4.10	4.72	4.79	3.12	4.65	4.10	4.58	4.58
US 10-year Bonds	1.94	2.71	2.50	3.25	3.25	1.70	2.89	2.35	3.00	3.00
NZ-US 10-year Spread	1.78	1.87	1.50	1.33	1.56	1.84	1.87	1.65	1.50	1.41

<sup>(1)</sup> 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		Last
<b>Friday 12 December</b>					
NZ, ANZ-RM Consumer Confidence, December			121.8		
NZ, BNZ PMI (Manufacturing), November			59.3		
China, Retail Sales, November y/y	+ 11.5%	+ 11.5%			
China, Industrial Production, November y/y	+ 7.4%	+ 7.7%			
Jpn, Industrial Production, October 2nd est		+ 0.2%P			
Euro, Industrial Production, October	+ 0.2%	+ 0.6%			
Euro, Eurozone Employment, Q3 y/y		+ 0.4%			
US, Mich Cons Confidence, December 1st est		89.7	88.8		
US, PPI ex-food/energy, November y/y	+ 1.8%	+ 1.8%			
<b>Monday 15 December</b>					
NZ, BNZ PSI (Services), November			57.8		
Jpn, Tankan (lge manuf), Q4	+ 14	+ 13			
US, Industrial Production, November	+ 0.6%	-0.1%			
US, Empire Manufacturing, December	+ 12.00	+ 10.16			
US, NAHB Housing Index, December		58	58		
<b>Tuesday 16 December</b>					
NZ, Government's HYEFU					
Aus, RBA Minutes, 2 Dec Meeting					
China, PMI (HSBC), December 1st est			50.0		
Euro, PMI Services, December 1st est			51.1		
Euro, Trade Balance, October		+ €18.5b			
Germ, ZEW Sentiment, December		+ 11.5			
UK, CPI, November y/y		+ 1.3%			
US, Markit PMI, December 1st est			54.8		
US, Housing Starts, November		1030k	1009k		
<b>Wednesday 17 December</b>					
NZ, Balance of Payments, Q3	-2.8%		-2.5%		
NZ, Mortgage Approvals, week ended 12/12			-5.8%		
NZ, Dairy Auction			-1.1%		
Aus, Westpac Leading Index, November			flat		
Jpn, Merchandise Trade Balance, November			-¥710b		
Euro, Labour Costs, Q3 y/y		+ 1.2%			
Euro, CPI, Nov y/y 2nd est		+ 0.3%P			
UK, Unemployment Rate (ILO), October			6.0%		
UK, Retail Sales vol., November		+ 0.8%			
UK, CBI Industrial Trends, December		+ 3			
UK, BOE Minutes, 4 December Meeting					
US, CPI ex food/energy, November y/y	+ 1.8%	+ 1.8%			
US, FOMC Policy Announcement	0.25%	0.25%	0.25%		
US, Current Account, Q3 s.a.		-\$94.8b	-\$98.5b		
<b>Thursday 18 December</b>					
NZ, GDP, Q3	+ 0.9%		+ 0.5%		
China, Property Prices, November					
Euro, (circa) PMI Manufacturing, December 1st est			50.3		
Germ, IFO Index, December			104.7		
US, Philly Fed Index, December	+ 30.0	+ 40.8			
US, Leading Indicator, November	+ 0.5%	+ 0.9%			
<b>Friday 19 December</b>					
NZ, Credit Card Billings, November			+ 1.3%		
NZ, ANZ Business Survey, December			+ 31.5		
<b>Friday 19 December...continued</b>					
NZ, External Migration, November s.a.			+ 5,250		
NZ, ANZ Job Ads, November			-0.3%		
Jpn, All Industry Index, October			+ 1.0%		
Jpn, BOJ Policy Announcement, Money Base Target			+ ¥80T p.a.		
Germ, PPI, November y/y			-1.0%		
UK, (circa) CBI Dist Trade Survey,			+ 27		
<b>Monday 22 December</b>					
NZ, Household Credit, November y/y			+ 4.7%		
NZ, WMM Consumer Confidence, Q4			116.7		
Jpn, BOJ Economic Report					
Euro, Consumer Confidence, Dec 1st estimate			-11.6		
US, Existing Home Sales, November			5.26m		
<b>Tuesday 23 December</b>					
NZ, Merchandise Trade, November			-\$908m		
NZ, RBNZ LVR Data, Nov (ex exmptns)			7.1%		
China, Leading Index (Conference Board), November			+ 0.9%		
UK, GDP, Q3 3rd est			+ 0.7%P		
US, New Home Sales, November			458k		
US, GDP, Q3 3rd est			+ 3.9%P		
US, Durables Orders, November			+ 0.4%		
US, Personal Spending, November			+ 0.2%		
<b>Thursday 25 December</b>					
Jpn, BOJ Minutes, 18/19 Nov Meeting					
Friday 26 December					
Jpn, CPI, November y/y			+ 2.9%		
Jpn, Retail Sales, November y/y			+ 1.4%		
Jpn, Household Spending, November y/y			-4.0%		
Jpn, Unemployment Rate, November			3.5%		
<b>Thursday 8 January</b>					
NZ, ANZ Comdty Prices (\$NZ), December			-1.6%		
<b>Friday 9 January</b>					
NZ, Building Consents, November (res, # )			+ 8.8%		
<b>Wednesday 14 January</b>					
NZ, Electronic Card Transactions, December			-0.3%		
<b>Monday 19 January</b>					
NZ, Holiday - partial, Wellington Anniv.					
<b>Tuesday 20 January</b>					
NZ, QSBO, Q4			+ 19		
<b>Wednesday 21 January</b>					
NZ, CPI, Q4			+ 0.3%		
<b>Monday 26 January</b>					
NZ, Holiday - partial, Auckland Anniv.					
<b>Thursday 29 January</b>					
NZ, OCR Review			3.50%		

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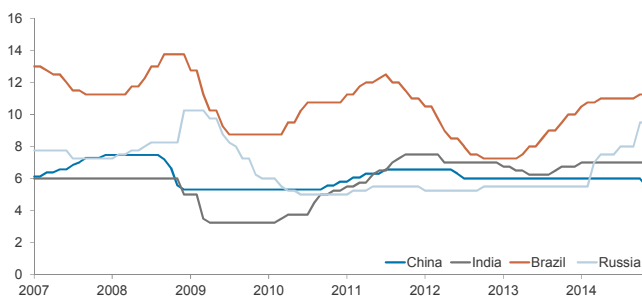
# Investment Brief

DECEMBER 2014

Global share prices continued to climb higher over November finishing up 2.9% with the Japanese share market leading the way forward. The Topix finished up 5.8% as investor confidence grew following the postponement of plans to raise the country's sales tax next year. The People's Bank of China cut interest rates towards the end of the month which helped emerging market equities finish in positive territory. Global bonds continued to rally over November as the ECB signalled more quantitative easing is on the way and saying that "we will do what we must to raise inflation and inflation expectations as fast as possible."

## 1. China interest rate cuts

### Emerging Economy Policy Rates



Source: Bloomberg

### China

- > The People's Bank of China (PBoC) cut both lending and deposit interest rates in November.
- > This move reflects concern from policy-makers that targeted easing measures to-date will prove to be insufficient to counteract the recent deterioration in GDP growth. It also reflects the recent decline in inflation which has led to an increase in real interest rates – an effective tightening in monetary conditions.
- > Having started to reduce interest rates, PBoC is likely to cut interest rates further. At the same time, the growth and inflation outlook in India is becoming increasingly supportive of interest rate reductions. We are therefore beginning to see a divergence in emerging economy monetary policy settings, as Russia and Brazil continue to hike rates in response to greater inflationary pressure.
- > The good news is that each central bank is responding to its own set of circumstances in an orthodox manner.

### India

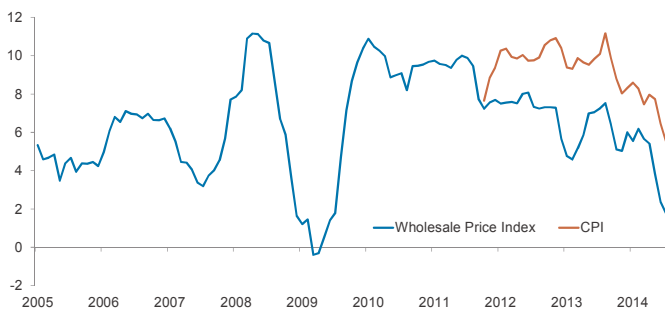
- > Meanwhile the growth/inflation outlook in India is moving increasingly in favour of interest rate cuts. Both wholesale and consumer price inflation has fallen rapidly in recent months.
- > The decline in inflation is largely due to the decline in food prices recently along with broader commodity price falls.
- > The Reserve Bank of India also gets credit for its new anti-inflation stance which includes the recent introduction of a welcome inflation targeting regime.
- > The maintenance of lower inflation requires the government to continue on with efforts to reduce food price inflation and continue strong budget disciplines.
- > That said, interest rate cuts are probably more a 2015 story with 100 basis points of interest rate cuts likely next year – the key risk to that view being a strong recovery in commodity prices.

### Japan

- > September quarter Japanese GDP growth was disappointingly weak. Market expectations were for an annualised quarterly increase of +2.2% but the result was -1.9%.
- > As expected inventories made a negative contribution although somewhat larger than anticipated. The major disappointment was the inability of personal consumption to provide anything more than a meagre recovery following the sharp contraction in the previous quarter.
- > We have been at the low end of market expectations for Japan GDP growth all year but now lower our forecast for calendar 2014 again to an annual average +0.4%. Our forecasts for 2015 and 2016 are +0.9% and +1.3% respectively.
- > The weakness in growth has seen the Government delay the implementation of the second tranche of the consumption tax increase (from 8% to 10%), pushing it out from the end of next year to 2017. Furthermore an election has been called for before Christmas.

## 2. Dis-inflation in India

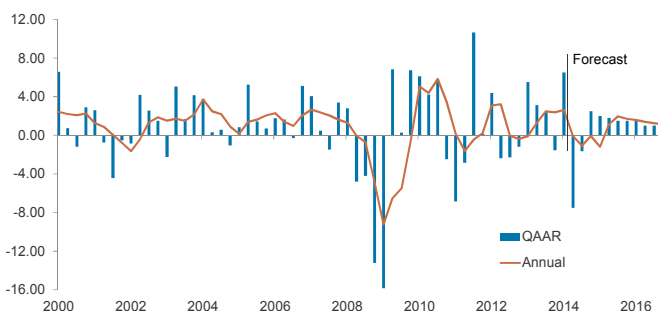
### India Inflation - Annual % Change



Source: Bloomberg

## 3. Japan in recession - again

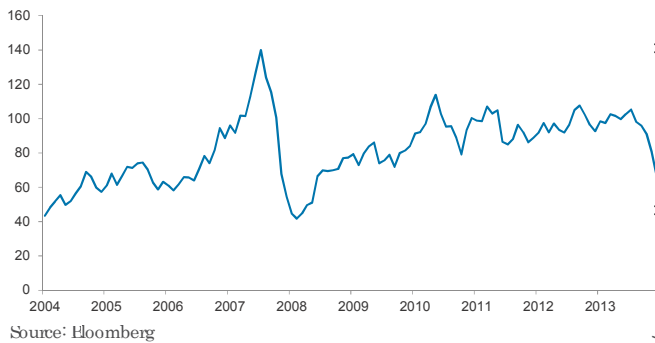
### Japan GDP Growth - Percent Change



Source: Bloomberg

## 4. Oil price on slippery slope

Oil Price - WTI, USD/b

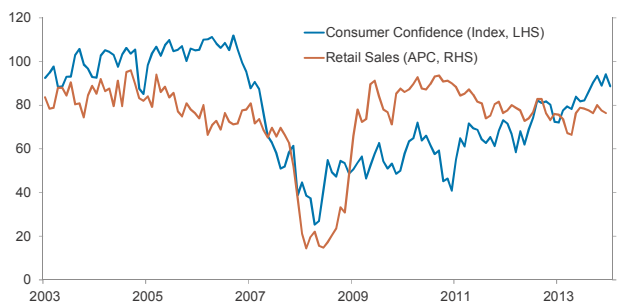


### Oil

- > The price of oil has moved sharply lower over the last five months. This is largely the result of soft global demand and increased supply (from the US).
- > One factor that can normally be relied upon to lead to some price stabilisation is production cuts, however OPEC left production levels unchanged at its November meeting. This led to a further decline in prices towards the end of the month. Prices are now down 40% on the 2014 peak of US\$107 per barrel seen in July.
- > The major global economic ramifications of lower oil prices are higher growth, lower inflation and monetary conditions that can remain easier for longer. The news is not so good for the major oil producers such as Russia, Norway, Canada and Brazil.
- > In the US the energy sector will suffer, but lower oil prices are likely to be a net benefit to the economy. That reinforces our expectations that US interest rates hikes are likely to come later rather than sooner.

## 5. US consumer remains upbeat

US Consumer Confidence and Retail Sales

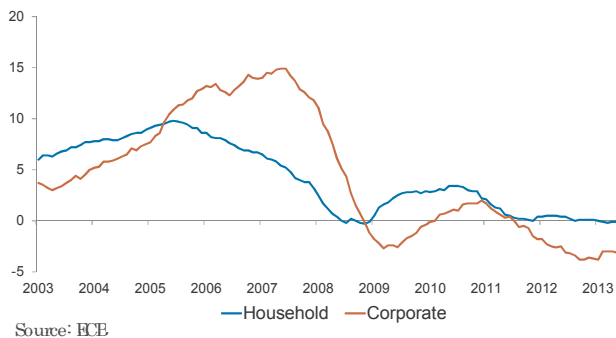


### US consumer remains upbeat

- > US consumer confidence slipped to 88.7 in November from 94.1 previously, but remains around post-recession highs.
- > At the same time price gains in the housing market have eased off after a period of recovery. The lift in house prices was an important force in lifting consumer confidence.
- > This raises the question that if the pace of price gains continue to moderate, will consumer confidence likewise slip? We think this is unlikely given strong offsets in the form of an improving labour market, the impact of falling oil prices on discretionary income, and the wealth and confidence effects of a strong share market. Therefore consumer spending is likely to remain robust in the US in the medium term.
- > Consumer confidence in the 85-90 range is consistent with our expectations of GDP growth of around 3% per annum in the period ahead.

## 6. Lending in the Euro zone getting less bad

Euro Zone Credit Growth

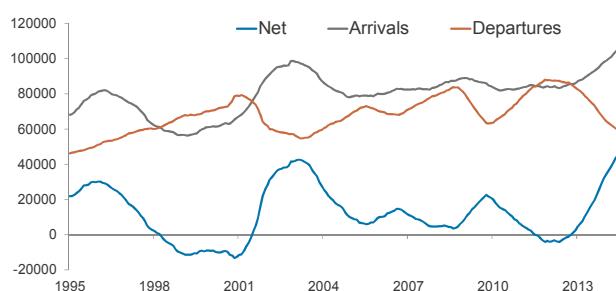


### Euro zone

- > The pace of contraction in bank lending continues to lessen as money supply growth continues to run at positive annual rates and the passing of the Asset Quality Review and bank stress tests along with ECB support foster lending conditions.
- > At the same time, the lending surveys have indicated a gradual pickup in demand for credit (recall lending growth in Europe has been impeded by both demand and supply side issues).
- > While the outlook for credit growth appears to be improving, inflation has continued to moderate due to still slack demand relative to potential growth, as well as the impact of transitory factors such as energy prices.
- > The ECB still needs to add further support to the economy and will likely soon elaborate on measures to increase its balance sheet.

## 7. Net migration continues to rise

Number, year to date



### Net migration

- > Annual migration data showed a net inflow of 47.6k in the year to October. The last couple of months have seen a stronger than expected inflow which if maintained point to a peak well in excess of 50k in the next few months.
- > The strong net inflows are the result of the lowest level of departures by New Zealanders to Australia since the early 1990s. That continues to reflect relative economic (labour market) performance in favour of New Zealand. At the same time the number of foreign migrants choosing to live in New Zealand continues to increase.
- > Net inflows over the past year now represent about a 1% increase in population. That has a number of economic impacts. Strong population growth adds to the consumption of goods and services in the economy and contributes to the supply/demand imbalance in the housing market. But it also adds to the supply of labour which, at a time of strong employment growth, is helping keep wage inflation in check.

## Market commentary

### Global shares

Global share prices continued to climb higher over November finishing up 2.9%. US shares continued their strong performance helped by good economic data and a solid earnings season, while the ECB helped European shares by signalling more aggressive quantitative easing is on the way. It was however the Japanese share market that led the way forward, with the Topix finishing up 5.8%. Investor confidence grew as Prime Minister Abe postponed plans to raise the country's sales tax next year after Japan fell back into technical recession. Emerging markets had a solid performance but lagged developed markets over November returning 1.1%. Emerging markets were boosted as the People's Bank of China cut interest rates towards the end of the month.

### New Zealand shares

The New Zealand share market experienced a positive month finishing up 0.7%. The domestic market lagged global shares but outperformed the Australian share market which fell as its energy sector suffered on the back of falling oil prices. Air New Zealand was the big mover over the month as the company announced an unscheduled trading update which highlighted the potential for strong near term profits given rising revenue and lower fuel prices. The company's share price gained nearly 21% over November as the price of oil fell to lows last seen in 2010.

### New Zealand listed property

The New Zealand Property Index outperformed the broad domestic equity market, gaining 2.3%. The strong performance was broad based with all but CDL Investments experiencing a positive return over the month. DNZ Property Fund was the big mover over the month as they released a solid half year result. DNZ has continued to increase the pre-commitment lease level at their Auckland Westgate Mall to 80%, up from 45% six months ago. DNZ's total return over the month was 5.4%.

### Global bonds

Global bonds continued to rally over November, with the Barclays Global Aggregate Index ending up 1.2%. The US Federal Reserve continued to reinforce that rate hikes are still a way off and that they are conscious of the risk to the US posed by global weakness and declining inflationary expectations. The ECB also helped bonds rally by signalling more quantitative easing is on the way and saying that "we will do what we must to raise inflation and inflation expectations as fast as possible". The US 10 Year Treasury closed the month at 2.16%, down 17 basis points over the month.

### New Zealand bonds and cash

New Zealand Government bonds rallied alongside global bonds over the month producing solid returns. Domestic yields followed the global trend although the fall was not as large. Local economic data was mixed over the month with the unemployment rate falling to 5.4%, retail sales rose, while the Producers Price Index fell led by dairy prices. The 90 Day Bank Bill yield fell three basis points to 3.67% while the New Zealand 10 year Government bond yield fell eight basis points to 3.91%. New Zealand Government bonds outperformed domestic credit over the month.

## Commodities

The broad commodity index traded relatively flat over the month until the last couple of trading days when OPEC announced their decision not to reduce the production quotas in response to low global oil prices. This saw the price of oil plunge back to 2010 lows. Limiting the fall in energy prices over November was index heavyweight natural gas which gained 3.3%. Natural gas prices rose on increased US demand as temperatures plummeted and snow blanketed the country. As temperatures struggled to get above freezing level, data from Bentek Energy which is an energy market analytics company, showed consumption in the Northeast of the US reached its third-highest recorded November level.

### Global listed property and infrastructure

Global listed property and infrastructure turned in a solid performance over November, with global listed property finishing up 2.0% while infrastructure ended 1.5% higher. While underperforming the broad equity market, both yield focused asset classes benefited from falling bond yields, with the rally in global bonds making the yield spread slightly more attractive. In the year to date both asset classes have returned around 20%.

### New Zealand dollar

The NZD strengthened against the majors over the month, ending the month up 2.0% on a trade weighted basis. As with most currencies, the NZD rallied strongly against the Japanese yen following the Bank of Japan's announcement to significantly increase its quantitative easing programme in a bid to avert a relapse into deflation. The NZD finished up 6.9% against the Japanese yen and 3.9% against the Australian dollar at 0.9196.

	As at 30 November 2014	Change over the month (%)	Change over the year (%)
MSCI - US	7871.62	+2.7	+16.8
MSCI - UK	12333.90	+3.0	+4.5
MSCI - Germany	3092.01	+6.9	+6.0
MSCI - Japan	1764.90	+6.2	+14.1
NZX 50	5424.45	+0.7	+13.1
MSCI - World (local curr)	4798.31	+2.9	+13.6
MSCI - World (NZD)	8257.42	+1.1	+13.8
NZ Official Cash Rate	3.50	0 bps	100 bps
NZ 90 day bank bill yield	3.67	-3 bps	97 bps
NZ 10 year bond yield	3.90	-10 bps	-89 bps
US 10 year bond yield	2.16	-17 bps	-58 bps
NZD-USD	0.7851	+0.9	-3.8
NZD (TWD)	78.5	+2.7	+2.9
NZD (MSCI weighted)	84.1	+1.8	-0.2

## Contact us

If you have any enquiries about your investment or any of AMP Capital's products or services please call us on 0800 400 499.

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