Eastern & Central
COMMUNITY
TRUST

Helping fund a better community

EXECUTIVE MEETING
Thursday 26th February 2015
Commencing at 10:00 a.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, 1ST FLOOR, WESTERMAN'S BUILDING, 102-104 RUSSELL STREET SOUTH, HASTINGS, ON THURSDAY 26TH FEBRUARY 2015, COMMENCING AT 10.00 A.M.

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. Draft Minutes of the Executive Committee Meeting held 22nd December 2014 : **pages 3-6**
3. Matters arising and action items: **pages 7-8**

OPERATIONAL REPORTS TO THE EXECUTIVE

4. General Manager's Report to the Committee: **page 9**

FINANCIAL INFORMATION PAPERS

5. Financial Report to 31st January 2015: **pages 10-12**
6. Summarised Financial Position & Financial Performance YTD: **pages 13-19**
7. Asset Allocation & Summarised Fund Manager reports: **pages 20-51**
8. MCA January 2015 Monthly Report: **pages 52-90**
9. Draft Budget 2015/16: **pages 91-93**

EXECUTIVE DECISIONS

10. Discretionary Donation Approvals; **pages 94 to 103**

EXECUTIVE/BOARD INFORMATION PAPERS

11. Hedging Reports: **pages 104-114**
12. Investment Commentaries & Market Reviews: **pages 115-151**
13. General Business

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Report type:	Secretarial and Board Administration Items
Recommendation:	The Executive considers the Minutes of the Executive Meeting held on 22nd December 2014 and approves as a true and accurate record of the meeting.
Agenda item no:	2
Subject:	Minutes of the Executive Committee Meeting held on 22nd December 2014
Responsible for the report:	General Manager

Purpose of report:	To record the recommendations of the Executive from the Executive Meeting, including decisions taken, and to approve the minutes from the 22nd December 2014 as a true an accurate record of the meeting.

MINUTES FOR THE MEETING OF THE EXECUTIVE COMMITTEE OF THE EASTERN AND CENTRAL COMMUNITY TRUST INC., HELD IN THE MEETING ROOM, 1ST FLOOR, WESTERMAN'S BUILDING, 102-104 RUSSELL STREET SOUTH, HASTINGS, ON MONDAY 22ND DECEMBER 2014, COMMENCING AT 3.00 PM.

PRESENT:
Via Teleconference: Bruce Mills (Committee Chair), Anna Hansen, Geoff Milner, Kaye McAulay ***(joined the meeting at 3.20pm)*** and Stephen Kerr.
In Person: Jonathan Bell (General Manager), Bev Watkins (Donations Manager) and Kelie Jensen (Trust Secretary).

<u>**SECRETARIAL AND ADMINISTRATION ITEMS**</u>

1. **Apologies**
None

2. **Draft Minutes of the Executive Committee Meeting held on 30th October 2014**
The Executive acknowledged receipt of the minutes of the meeting held on 20th October 2014, as included in the Agenda Papers for the November Trust Meeting.

3. **Matters Arising and Action Items**
No matters arising.
Action Items:
   - Item 3 & 4 – J Bell will allow for expected increase in Fund Managers Fees and (potentially) Brokerage Fees in next year's budget. **ACTION ITEM**

<u>**OPERATIONAL REPORTS TO THE COMMITTEE**</u>

4. **General Manager's Report to the Committee**
Noted:
   - J Bell: financials continue to track well with income up and expenses under budget slightly; recent hedging loss effectively cancelled out earlier hedging gain; note changes to PIMCO graph and improved ECFB reporting; otherwise nothing of significance to report over the last month.
   - <u>Page 13/Dashboard</u>: If using colour coding/"green light" system, please ensure colours are accurate. **ACTION ITEM**

Kaye McAulay joined the meeting at 3.20pm.

   - Ask M Chamberlain to provide a review of Hedging policy/purpose at January Trust Meeting. Specific question raised as to why we hedge value of assets rather than income. **ACTION ITEM**

4.1 RESOLUTION
The Executive resolved to receive the report from the General Manager.
G Milner/A Hansen
CARRIED

<u>**FINANCIAL INFORMATION PAPERS**</u>

5. **Financial Report to 30th November 2014**
The Trust's Financial Position and Financial Performance for November were included in the Agenda Papers:
   - YTD:
      - Net assets as at end of November were $157.4M.
      - Investment returns YTD are $5.29M – ahead of budget by $549K.
      - Expenses YTD are $1.07M – under budget by $83K.
      - Donations YTD are $3.93M – under budget by $306K.
      - Net position YTD is a surplus of $293K – ahead of budget by $937K.

6. **Summarised Financial Position & Financial Performance YTD**
Nothing noted.

7. **Asset Allocation & Summarised Fund Managers Reports**
Noted:
   - Page 22: Current asset threshold of $15M is too high; J Bell suggests simplifying policy wording to "… term deposits to be held by no less than two banks". Include as Agenda Item for January Trust Meeting. **ACTION ITEM**
   - Page 30: New PIMCO graph; from Jun 2015 J Bell will include prior year comparative. **ACTION ITEM**
   - Page 33: Rabobank had credit downgrade.
   - Page 35: Point 2 – Monthly Change in Capital of -$2.9M is significant – please provide commentary in future. **ACTION ITEM** J Bell: includes $1M withdrawal and one off adjustment re new treatment of perpetual bonds accounts for remaining $1.9M (refer list on page 44).
   - Page 42**:** Graph highlights gap in 5-10-year maturities. Phil Williams preparing paper for January Trust Meeting to present alternatives and potential to reduce exposure by using term deposits.

INVESTMENT PORTFOLIO REPORT

8. **MCA November 2014 Monthly Report**
Noted:
   - Solid market performance has continued; currency fluctuations continue to be the source of volatility.
   - New tables on pages 75 & 80 highlight deviations from equal weighting target. J Bell to discuss with M Chamberlain, C Swasbrook and R Burton to clarify position on rebalancing. **ACTION ITEM**

EXECUTIVE DECISIONS

9. **Discretionary Donations**
The Executive considered the discretionary donations included in the Agenda Papers and noted that the donation of $4,000 to St Matthew's Church – Masterton was tabled and approved at the October Executive Meeting.

9.1 RESOLUTION
The Executive resolved to endorse the staff recommendation to decline the applications from the Nga Kairauhii Charitable Trust and the Immune Deficiencies Foundation of NZ Inc.
K McAulay/A Hansen
CARRIED

EXECUTIVE / BOARD INFORMATION PAPERS

10. Staples Rodway Interim Review Report

Noted:

- Include the report under Trustee Login on the website and in the Agenda Papers for the January Trust Meeting. **ACTION ITEM**
- J Bell (with A Arcus) will identify the reason for the $557 discrepancy and report back. **ACTION ITEM**

10.1 RESOLUTION

The Executive resolved to receive the Report from Staples Rodway on the Interim Review to 30th September 2014.

S Kerr/G Milner

CARRIED

11. Hedging Reports

Nothing noted.

12. BNZ Information / Market Commentary Papers, AMP November Quarterly Report

Nothing noted.

GENERAL BUSINESS

13. General Business Items

K McAulay gave a brief update on TKP.

14. Next Executive meeting will be held on Monday 26th February at 3pm.

15. Close of Executive Committee Meeting

There being no further business, B Mills closed the meeting at 4.05pm.

Bruce Mills
Chair
26 February 2015

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agenda

Report type:	Secretarial and Board Administration Items
Recommendation:	The Executive receives the Action Plan from the previous Executive Meeting dated 22nd December 2014.
Agenda item no:	3
Subject:	Executive action items and matters arising progress report
Responsible for the report:	General Manager

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

EXECUTIVE COMMITTEE ACTION PLAN

Meeting Date; December 2014

#	ACTION	WHO	WHEN	STATUS
1	Add amended Trustee exit interview strategy to plan and charter	Jonathan	At Governance Charter Review	Pending
2	Brokerage Fees – ensure budgeted correctly for 2015-16	Jonathan	May 2015	Pending
3	Fees for advice from Fund Managers – Discuss with MCA about re-striking fees for next year when contracts roll over	Jonathan	June 2015	Pending
4	M Chamberlain to provide a review of hedging purpose at the Jan Trust Meeting	JB/MC	Jan 2015	Completed
5	Wording in SIPO to be reviewed around Term deposits	JB	Jan 2015	Completed
6	PIMCO Graph – To include prior year comparative	JB	Feb 2015	Completed
7	Include commentary in change of capital if significant	JB	Jan 2015	Noted
8	Tables in MCA Report regarding rebalancing of portfolio's – J Bell to speak with M Chamberlain	JB/MC	Feb 2015	Completed
9	Staples Rodway Report to be placed on Website and included for discussion at Jan 2015 meeting	JB	Jan 2015	Completed
10	Reconcile $557 discrepancy in the Auditors Report	JB	Feb 2015	Pending

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Report type:	Operational Reports to the Executive
Recommendation:	The Executive receives and accepts 1. The Financial Report for the period to 31st January 2015. 2. The General Manager's report for the period to 20th February 2015.
Agenda item no:	4
Subject:	General Manager's Report to the Executive Committee
Responsible for the report:	Jonathan Bell

Purpose of report:	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 31st January), and other KPI's to 20th February 2015. To flag any items of risk for the Executive and to flag any other items of significance to the Executive.

1.0 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 January. Some key comments;

- Investment assets have increased by $5mill during the month. YTD they have increased by $14.4 mill.
- Realised income is ahead of budget by $306k YTD.
- Total expenses YTD are $113k lower than that budgeted.

1.2 Hedging Report – The hedging report as 5th of February is included. This shows a negative of $582k, when we closed this on the 9th of Feb the payment to BNZ was $562k. I include Michaels report on hedging for the 13th February.

2.0 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.

3.0 HR

Nothing to report.

Jonathan Bell
General Manager
February 20th 2015

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agenda

Report type:	Financial Information Papers
Recommendation:	The Executive notes the financial position, financial performance, asset allocation, and summarized fund manager reports as at 31st January 2015.
Agenda item no:	5 to 7
Subject:	Financial Reports
Responsible for the report:	General Manager

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

ECCT MONTHLY FINANCIAL REPORTING DASHBOARD

Month End	Comparison Current Month to Budget Jan 31st 2015		Comparison YTD to Budget Jan 31st 2015		Comments
	Actual (000's)	Budget (000's)	Actual (000's)	Budget (000's)	
Gross Realised Income	$ 0.403	$ 0.517	$ 6.488	$ 6.183	Refer to second page or GM Report
Expenses	$ 0.112	$ 0.149	$ 1.317	$ 1.430	
Net Realised Income	$ 0.291	$ 0.368	$ 5.171	$ 4.753	
Donations	$ 0.726	$ 0.585	$ 4.652	$ 4.930	
Profit/Loss	-$ 0.435	-$ 0.217	$ 0.519	-$ 0.177	

Investments	Dec 31st Value	Jan 31st Value	YTD Change (000's)	March 31st Value (000's)	
Equity F Barr	49,191	52,519	9,549	42,970	Refer to GM commentary
Equity E Capital	46,300	49,330	6,904	42,426	Refer to GM commentary
NZ Bonds	39,346	39,751	- 50	39,801	Refer to GM commentary
O'Seas Bonds	15,136	15,364	3,287	12,077	Refer to GM commentary
Own Cash	7,000	7000	- 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

Income	Realised income for the month was behind budget by $114k, a timing issue YTD Realised income is ahead of budget by $306k. Net Income YTD (Unrealised + Realised) = $19.8 mill (Up $5mill from last month)this is due to the increase in values of equities and the change in currency. The drop in the US dollar aided the increase in value of our investments Overall net loss of $200k against budget for the month
Expenses	Overall expenses for the month were $112k against a budget of $149k, Audit fees were slightly higher than budgetted All other monthly expenses in line with budget
Donations	Approved donations are slightly behind budget for YTD $168k. Donations for the month were $141k over budget
Balance Sheet	During the month we had major gains with Forsyth Barr and Elevation Capital. Minor gains in PIMCO and ECFB

Eastern & Central Community Trust
Statement of Financial Position
As at 31 January, 2015

	Actual Jan 2015	Actual March 2014
Trust Funds		
Surplus Income	13,987,774	2,552,047
General Reserves	148,247,703	145,695,656
Total Trust Funds	**162,235,477**	**148,247,703**
Current Assets		
Petty Cash	37	49
Current	6,093	11,331
Imprest	587	1,316
Call	666,974	686,926
Conference Current 2015	15,826	-
Sundry Debtors	50,902	107,446
Total Current Assets	740,419	807,068
Investment Assets		
New Zealand		
Shares Forsyth Barr	52,518,785	42,970,359
Shares Elevation Capital	49,329,996	42,426,400
Hedging Contracts NZ	(974,277)	1,352,990
Cash Self Term Deposits	7,000,000	10,000,000
Bonds Self	39,759,958	39,801,233
Te Kete Putea Ltd Partnership	90,656	90,656
Private Equity Pioneer Capital	663,045	581,104
Total New Zealand Investments	148,388,161	137,222,742
Overseas		
Bonds Pimco	15,363,947	12,077,149
Total Overseas Investments	15,363,947	12,077,149
Total Current and Investment Assets	164,492,528	150,106,959
Fixed Assets		
Fixed Assets at Cost	198,643	187,553
Accumulated Depreciation	(167,509)	(152,535)
Total Fixed Assets	31,134	35,018
Total Assets	164,523,661	150,141,977
Current Liabilities		
Donation Creditors	2,115,815	1,658,050
Trade Creditors	66,615	71,118
Creditor Accruals	105,754	165,106
Total Current Liabilities	2,288,184	1,894,274
Net Assets	**162,235,477**	**148,247,703**

Eastern & Central Community Trust
Statement of Financial Performance
For The 10 Periods Ending 31 January, 2015

	Current Month			Year to date			Full year	
	Actual	**Budget**	**Last Year**	**Actual**	**Budget**	**Last Year**	**Budget**	**Last Year**
Income								
Realised Investment Income								
New Zealand								
Shares FBarr Interest	569	300	3,291	7,508	2,100	86,526	2,500	89,888
Shares FBarr Dividend	160,707	120,000	53,426	1,559,788	1,470,000	832,239	1,800,000	997,853
Shares FBarr Disposal gain/loss	-	-	-	-	-	1,090,932	-	1,090,932
Shares ECap Interest	4,896	200	7,827	45,796	2,000	140,271	2,500	153,169
Shares ECap Dividend	128,000	90,000	89,877	1,751,323	1,510,000	794,499	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	-	-	-	(129,445)	-	1,225,679	-	1,435,800
Bonds Self Interest	80,821	40,000	38,989	2,155,123	2,185,000	2,204,080	2,400,000	2,559,260
Bonds Self Disposal gain/loss	-	-	-	(2,079)	-	-	-	-
Cash Self Realised Income	27,884	27,000	38,463	340,645	293,000	403,015	320,000	473,206
Sundry Income	-	-	10,000	170	150	10,550	150	10,550
	402,879	277,500	241,873	5,728,829	5,462,250	6,854,247	6,325,150	7,899,915
Overseas								
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	-	240,000	148,584	752,124	720,000	236,669	720,000	236,669
Property Au Disposal gain/loss	-	-	-	-	-	(212,238)	-	140,442
	-	240,000	148,584	759,948	720,000	21,226,956	720,000	3,389,079
Total Realised Income	402,879	517,500	390,457	6,488,776	6,182,250	28,081,204	7,045,150	11,288,994
Unrealised Investment Income								
New Zealand								
Shares FBarr change in Currency	2,091,121	-	235,141	3,742,682	-	(878,721)	-	(3,315,316)
Shares FBarr change in Value	1,171,740	-	(1,633,068)	4,675,986	-	(456,561)	-	1,766,424
Shares ECap change in Currency	2,081,682	-	124,454	4,333,460	-	(1,013,594)	-	(2,743,883)
Shares ECap change in Value	944,490	-	(1,280,561)	1,468,661	-	147,876	-	1,654,536
Property NZ change in Value	-	-	-	-	-	16,864	-	(0)
Hedging change in Value	(1,545,184)	-	27,980	(2,327,267)	-	132,194	-	1,578,350
Bonds Self change in Interest	201,840	-	148,804	652,481	-	(7,686)	-	52,038
Bonds Self change in Value	130,685	-	67,151	253,200	-	(906,657)	-	(1,217,663)
	5,076,375	-	(2,310,099)	12,799,202	-	(2,966,286)	-	(2,225,516)
Overseas								
Shares SSGA change in Currency	-	-	-	-	-	1,232,283	-	0
Shares SSGA change in Value	-	-	-	-	-	(18,284,673)	-	(0)

Eastern & Central Community Trust
Statement of Financial Performance
For The 10 Periods Ending 31 January, 2015

	Current Month			Year to date			Full year	
	Actual	**Budget**	**Last Year**	**Actual**	**Budget**	**Last Year**	**Budget**	**Last Year**
Bonds Vngd change in Currency	-	-	-	-	-	(448,759)	-	(0)
Bonds Vngd change in Value	-	-	-	-	-	(689,407)	-	(0)
Bonds Pimco change in Value	227,085	-	53,177	560,629	-	(72,599)	-	75,328
Property Aus chg in Currency	-	-	-	-	-	(76,100)	-	0
Property Aus change in Value	-	-	-	-	-	428,779	-	0
	227,085	-	53,177	560,629	-	(17,910,476)	-	75,328
Total Unrealised Income	5,303,460	-	(2,256,922)	13,359,831	-	(20,876,761)	-	(2,150,187)
Total Investment Income	**5,706,339**	**517,500**	**(1,866,465)**	**19,848,607**	**6,182,250**	**7,204,443**	**7,045,150**	**9,138,807**
Expenses								
Administrative Expenses								
Advertising - Statutory	-	-	-	13,411	12,000	5,135	12,000	39,135
Promotion	938	8,000	6,365	19,341	66,000	20,872	72,000	23,326
Rent & Services	8,321	9,853	8,572	94,611	98,260	88,828	115,000	103,442
Telephone	1,108	1,000	931	11,849	10,000	8,602	12,000	10,832
Postage	559	450	388	2,914	2,900	2,605	4,000	3,438
KiwiSaver net Contributions	1,548	1,500	1,275	14,452	15,000	13,908	18,000	18,055
Printing & Stationery	2,151	1,200	1,024	10,074	13,800	11,129	16,000	12,807
Insurance	-	-	-	8,707	8,000	8,287	8,000	7,031
General Expenses	439	330	289	2,473	3,300	2,580	4,000	5,666
Computer Services	322	15,000	14,178	70,048	73,000	64,695	80,000	62,132
Staff Remuneration	42,894	45,000	31,620	386,155	399,555	341,621	475,000	432,882
Staff Training	-	-	-	884	4,000	80	5,000	115
Staff Travel	476	1,750	449	15,396	15,000	11,266	20,000	13,089
ACC Levies	-	-	-	(544)	2,000	(63)	2,000	1,961
Total Administrative Expenses	58,755	84,083	65,092	649,770	722,815	579,544	843,000	733,912
Trustees Expenses								
Trustees Remuneration	13,177	14,000	17,594	138,357	145,000	140,490	175,000	169,015
Meeting Expenses	1,933	5,500	5,481	44,247	46,000	54,864	55,000	79,255
Trustee Training	-	-	-	1,731	9,500	16,537	10,000	16,996
Liability Insurance	-	-	-	9,537	9,300	8,789	9,300	8,789
Total Trustee Expenses	15,110	19,500	23,075	193,872	209,800	220,680	249,300	274,056
Fee Expenses								
Affiliation Fees	-	500	760	6,325	7,500	7,845	7,500	7,845
Conference Fees	-	-	4,500	-	5,000	4,500	5,000	5,250
Donation Expenses	-	900	-	18,389	9,000	-	10,000	1,104
Professional Expenses	7,497	5,500	5,785	70,761	73,250	124,242	90,000	149,691
Audit Fees	5,086	-	-	19,486	2,000	(17)	18,000	22,426
Brokerage Fees	-	1,000	16,434	19,407	10,000	253,539	12,000	272,336

Eastern & Central Community Trust
Statement of Financial Performance
For The 10 Periods Ending 31 January, 2015

	Current Month			Year to date			Full year	
	Actual	**Budget**	**Last Year**	**Actual**	**Budget**	**Last Year**	**Budget**	**Last Year**
Custodian Fees	5,139	3,000	3,335	36,383	31,500	46,942	36,000	59,186
Fund Managers Fees	18,715	35,000	31,742	287,531	359,000	301,864	440,000	398,403
Total Fee Expenses	36,436	45,900	62,557	458,281	497,250	738,915	618,500	916,241
Depreciation	1,475	-	1,541	14,974	-	16,060	-	19,312
Amortisation	-	-	-	-	-	-	-	17,974
Profit/Loss on Disposal of Fixed Assets	-	-	(564)	-	-	28	-	28
Total Expenses	111,776	149,483	151,701	1,316,898	1,429,865	1,555,227	1,710,800	1,961,523
Donations								
Community Donations								
Special Donations	441,000	320,000	343,900	2,160,950	2,500,000	2,504,700	2,800,000	2,916,000
Standard Donations	284,815	265,000	256,500	1,834,893	1,604,000	1,458,240	1,780,000	1,588,140
Discretionary Donations	-	-	-	14,143	16,600	5,000	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
Total Donations Approved	725,815	585,000	600,400	4,652,486	4,820,600	4,197,940	5,300,000	4,750,140
Regional Project Reserve Fund	-	-	-	-	200,000	-	300,000	-
Less Donations Written Back	-	-	-	(108,551)	(90,000)	(108,194)	(100,000)	(124,902)
Total Community Donations	725,815	585,000	600,400	4,543,935	4,930,600	4,089,746	5,500,000	4,625,238
Surplus Income	4,868,747	(216,983)	(2,618,566)	13,987,774	(178,215)	1,559,470	(165,650)	2,552,047

EASTERN & CENTRAL COMMUNITY TRUST

CASHFLOW REPORT

FOR THE MONTH ENDING 31 JANUARY 2015

Westpac Call Account

Opening Statement Balance	**161,066**
CASH OUTFLOWS:	
Transfer to Current Account	165,000
Monthly Interest to Current Account	
Purchase Term Deposit	
Total cash outflows	**165,000**
CASH INFLOWS:	
Transfer From Current Account	670,000
Interest	908
Maturing Term Deposits	
Total cash inflows	**670,908**
Closing Statement Balance	**666,974**

EASTERN & CENTRAL COMMUNITY TRUST

CASHFLOW & PAYMENT AUTHORISATION REPORT

FOR THE MONTH ENDING 31 JANUARY 2015

Westpac Current Account

Opening Statement Balance		**302,554**	0
CASH OUTFLOWS:			
Payments to creditors		81,607	
Other expenses & Wages		37,739	
Donations		72,000	
Purchase of fixed asset		0	
Capital Items	-Purchase of Term Deposit	2,000,000	
	-Fee expenses	0	
	-Transfer to call a/c	670,000	
	-Transfer to imp a/c	0	
	-Transfer to Elevation Capital	0	
	-Transfer to Forsyth Barr	0	
	-Transfer to Pioneer Capital	0	
Hedging Close Out		0	
PIMCO		0	
Total cash outflows		**2,861,345**	
CASH INFLOWS:			
Interest Received (Current & Term Deposits)		23,011	
Dividends & Interest (Investment Managers)		225,505	
Debtors		0	
BNZ Hedging Pay Out		0	
Donations Written Back		0	
Sale of fixed assets		0	
Capital Items	-Maturing Term Deposits	2,000,000	
	-Transfer from Pimco	151,369	
	-Transfer from Forsyth Barr	0	
	-Transfer from call a/c	165,000	
	-Transfer from imp a/c	0	
Total cash inflows		**2,564,885**	
Closing Statement Balance		**6,093**	
	Unpresented Cheques	0	
Closing Cashbook Balance		**6,093**	

SCHEDULE OF PAYMENTS FROM THE CURRENT ACCOUNT FOR THE MONTH

Payments made in January 2015

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

CREDITORS	**PURPOSE**	**Payment Method**	**AMOUNT**
AAA Services	Cleaning	dc	$668.84
Aspire Enterprises	Milk	dc	$16.87
Create Limited	pool reports	dc	$2,097.20
Contact Energy	power	dd	$636.47
Corporate Trustee Services	fees	dc	$3,691.65
Credit Card purchases	staff cards	dd	$6,104.38
Elevation Capital	fees	dc	$12,687.50
Forsyth Barr	advisory fees	dc	$12,279.17
Fuji Xerox	Photocopier print charges	dc	$210.39
Hastings District Council	parking	dc	$142.00
hastings Taxis	Taxis for Napier to xmas function	dc	$0.00
Hatmar Holdings	Parking	AP	$552.00
Hatmar Holdings	Rent	AP	$4,821.72
Hatmar Holdings	Boardroom / rates / insurance	dc	$228.25
HB Office Products	stationery	dc	$0.00
HB Technologies	computer services/ copying	dc	$1,245.45
Helene McCormick	Catering	dc	$0.00
HSM Monitoring	alarm monitoring	dd	$31.05
Inland Revenue Department	PAYE	dc	$17,068.40
Mobile Finance Manager	Andy arcus	dc	$1,115.50
Office Interiors	Furniture	dc	$1,474.30
Philanthropy Nz	Conference	dc	$1,194.85
Pioneer Capital	drawdown # 10	dc	$0.00
Pitney Bowes	Monthly lease for franking	AP	$30.48
Ricoh Finance	photocopier lease	ap	$335.19
Te Kete Putea	third quarter services	dc	$13,537.71
Telecom	Telephone costs	DD	$1,246.65
Warehouse Stationery	Stationery	dc	$133.08
Xplore.Net Solutions	Website	dc	$57.50
			$81,606.60
REMUNERATION (includes reimbursement of travel)			
Staff & Trustees	Remuneration (net) paid 5.1.2015	dc	$18,617.84
Staff & Trustees	Remuneration (net) paid 19.1.2015	dc	$19,119.58
DONATION PAYMENTS			
Donations		dc	$72,000.00
	TOTAL PAYMENTS FOR THE MONTH		**$191,344.02**

Key to Payment Method

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

E&CCT ASSET ALLOCATION

AS AT 31st Dec 2014

CURRENT ASSETS		LIABILITIES		CAPITAL BASE		RESERVES
$165.4m	-	$2.29m	=	$143.33m	+	$19.78m

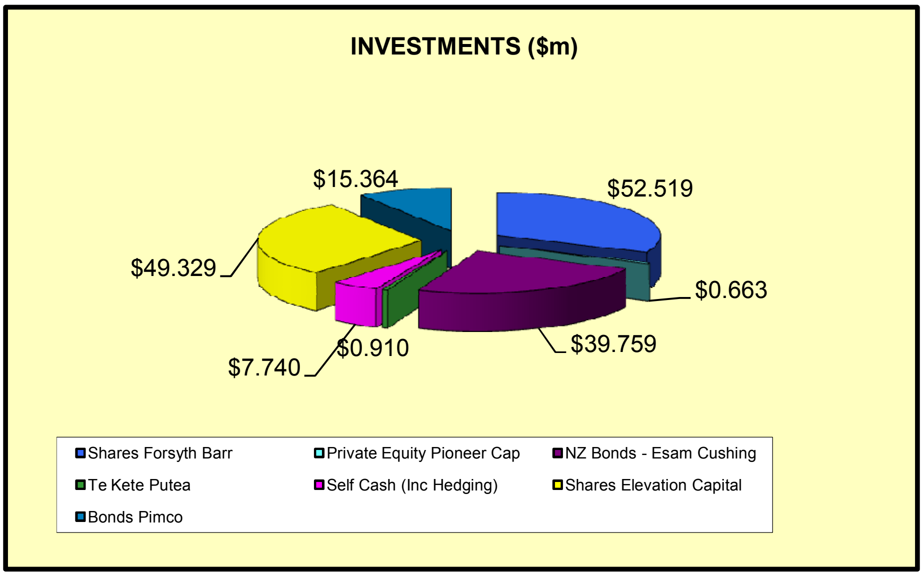
Benchmark (For Capital Base + maximum 25% in reserves)		Allowable Range	Tactical Target Updated 25th January 2013	Actual Value $m	Percentage of Current Assets	Percentage Variance from target	Variance from tactical target
60%	**GROWTH ASSETS**	**50 - 65%**	**60%**	**$102.5**	**61.9%**	**1.9%**	**$3.2**
30.0%	Shares Forsyth Barr	22.5% - 37.5%	30.0%	$52.5	31.7%	1.7%	$2.9
30.0%	Shares Elevation Capital	22.5% - 37.5%	30.0%	$49.3	29.8%	-0.2%	-$0.3
0%	Private Equity	0% - 0%	0%	$0.7	0.4%	0.4%	$0.7
35%	**INCOME ASSETS**	**25 - 45%**	**35%**	**$55.2**	**33.4%**	**-1.6%**	**-$2.7**
27.5%	NZ Bonds	20 - 35%	27.5%	$39.8	24.1%	-3.4%	-$5.7
7.5%	Overseas Bonds	5% - 10%	7.5%	$15.4	9.3%	1.8%	$3.0
5%	**LIQUID ASSETS**	**2 - 10%**	**5%**	**$7.7**	**4.7%**	**-0.3%**	**-$0.5**
5%	Self-managed Cash (Incl Hedges & TKP)	2 - 10%	5%	$7.7	4.7%	-0.3%	-$0.5
100%	**TOTAL**		**100%**	**$165.4**	**100.0%**		**$0.0**

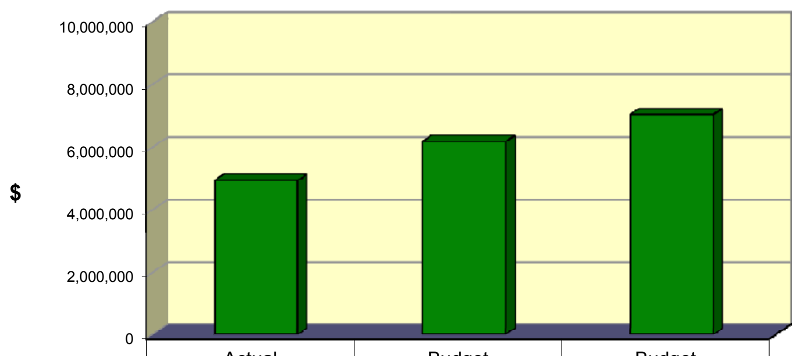
Benchmark Allocation –The benchmark allocation reflects the long-term views of the asset structures likely to generate the required investment return to meet the primary objectives. The benchmark allocation assumes a hypothetical "neutral environment", i.e. one in which the Trustees do not have a tactical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

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

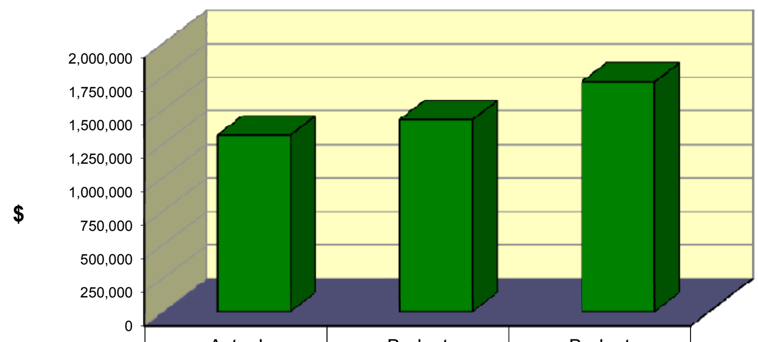
Tactical Target -This allows the Trustees to exercise a tactical view to favour one asset class over another, e.g. more into fixed interest, less into shares in times of high interest rates, while remaining within the "allowable range" for that asset class. Trustees will re-examine the "tactical target"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

FINANCIAL STATISTICS AS AT 31 JANUARY 2014





	Actual YTD	Budget YTD	Budget Full Year
$	4,943,592	6,182,250	7,045,150



	Actual YTD	Budget YTD	Budget Full Year
$	1,316,898	1,429,865	1,710,800

SCHEDULE OF SELF MANAGED INVESTMENTS

AS AT 9th JANUARY 2015

TERM DEPOSITS

Value	Bank	Date Invested	Term	Interest Rate	Maturity Date
$ 2,500,000	BNZ	5-Dec-14	90	4.53%	5/03/2015
$ 2,000,000	Westpac	7-Jan-15	90	4.45%	7/04/2015
$ 1,000,000	BNZ	9-Feb-15	85	4.45%	5/05/2015
$ 5,500,000	**TOTAL**				

CURRENT ASSETS

As at 31st January

Bank	Cashbook	Statement
Westpac Call Account	$1,560,000.00	
Westpac Current	$3,714.00	$0.00
Westpac Imprest	$981.95	
Petty Cash	$37.80	
	$1,564,733.75	

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	$ 3,500,000.00	49.5%
ANZ	$ -	0.0%
Kiwibank	$ -	0.0%
Westpac	$ 2,000,000.00	28.3%
HBS	$ -	0.0%
TOTAL CURRENT ASSETS	**$7,064,733.75**	(excludes accrued interest owed)

QUOTES FOR TERM DEPOSITS TRUST

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.

DATE Of Investment	**9-Feb-15**	
		Confirmed
Amount to invest	**$1,000,000**	$1,000,000

Bank Accepted	**BNZ**
Rate	**4.45%**
Maturity Date	**5-May-15**
Number of days	**85** 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 **Telephone**	Joshua Hamblyn 0800 272 332 arthur	Ext 46339	Karl 830 0983	Andrew mark (2) 0800 334 020 client 650681	Mark Barton or Jon Schicker 0800 11 33 15	Kelly DD 870 9066
Rate Offered	**Nil** **Jake**	**4.45%** **James**	**4.20%** **Karl**	**4.26%** **Virginia**	**4.22%** **Roger & Mark**	**4.29%** **Kelly**
Account to withdraw **Account Number**	Trust Current 03 0642 0797656 00	Trust Current 03 0642 0797656 00	Trust Current 03 0642 0797656 00	Trust Current 03 0642 0797656 00	Trust Current 03 0642 0797656 00	Trust Current 03 0642 0797656 00
				john-treasury 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 $1.56 mill as at 9th Feb 2015
Hedging rollover in May 2015, other TD maturing to cover if needed
Next TD is BNZ $2.5 mill on 5th March 2015.
Pioneer Capital commitment nothing likely in next 4 weeks
Presently, FBECL has $4.15 million cash available if an emergency.
We have $5.5 million on Term Deposit.
Donation Creditors stand at $2.01 mill at 31st jan 2015.
Payments approved last Exec meeting Nil
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.

financialmarkets@kiwibank.co.nz

2200	**Cash Self Term Deposit**	**$1,000,000.00**

Signed ……………………………………….

Date ………………………

Expected interest on maturity **$10,363.01**

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

Signed ……………………………………….

Date ………………………

ENTER MATURITY DATE ON PERSONAL CALENDAR

PORTFOLIO RECONCILIATION
Eastern & Central Community Trust
31 January 2015

ELEVATION CAPITAL

Cash Reconciliation

	Schedule		NZD
31-Dec-2014		**Opening Balance**	**4,272,908.71**
	2	Capital Invested & Withdrawn	0.00
	3	Interest (RWT exempt)	4,896.45
		Interest (RWT exempt) - paid to ECCT	(3,685.96)
	4	Dividends & Distributions	128,000.49
		Dividends & Distributions - paid to ECCT	(125,384.12)
	5	Fees, Expenses & Fee Rebates	(1,771.71)
		Cash Movement	
	10	Shares	(915,378.56)
	6	Cash currency m/e revalation	176,873.59
	7	Term Deposit Maturity	0.00
		FX Transactions Gain/loss	0.00
31-Jan-2015		**Closing cash**	**3,536,458.89**
		Closing Bank balance	**3,536,458.88**
		Variance	**0.01**

Asset Valuation

	Schedule		NZD
31-Dec-2014		**Opening Valuation**	**46,299,993.47**
	2	Capital Invested & Withdrawn	0.00
	7	Term deposits (incl accrued Interest)	0.00
	8	Cash	3,536,458.88
	9	Shares Valuation*	45,793,533.80
31-Jan-2015		**Closing Valuation**	**49,329,992.68**
		Monthly Change	**3,029,999.21**

PORTFOLIO RECONCILIATION
Eastern & Central Community Trust
31 January 2015

FORSYTH BARR

Cash Reconciliation

	Schedule		NZD
31-Dec-2014		**Opening Valuation**	**366,025.64**
	2	Capital Invested & Withdrawn	0.00
	3	Interest (RWT exempt)	569.44
		Interest (RWT exempt) - paid to ECCT	(362.69)
	4	Dividends & Distributions	68,156.49
		Dividends & Distributions - paid to ECCT	(96,072.67)
	5	Fees, Expenses & Fee Rebates	(51.39)
		Cash Movement	
	10	Shares	(238,321.64)
	7	Cash Deposits	0.00
	6	Cash currency m/e revalation	4,794.11
31-Jan-2015	11	**Closing cash**	**104,737.30**
		Closing Bank balance	**104,737.29**
		Variance	**0.01**

Asset Valuation

	Schedule		NZD
31-Dec-2014		**Opening Valuation**	**49,191,082.46**
	2	Capital Invested & Withdrawn	0.00
	7	Term deposits (incl accrued Interest)	0.00
		Cash	104,737.29
	4	Dividends & Distributions	
	6	Shares Valuation*	52,428,640.45
31-Jan-2015		**Closing Valuation**	**52,533,377.74**
		Monthly Change	**3,342,295.28**

* Share Valuation is unaudited last trading prices at month end

Summary Information

Fund Name	31/12/2014 Value	Cash Flow	31/01/2015 Value
PIMCO NZD Hedged Global Strategy Fund	15,136,862	0	15,363,947

Performance

	1 Month	3 Month	FYTD	1 Year	2 Year	3 Year	5 Year	10 Year	Since Inception
Fund - Net of Fees*	2.52	3.99	6.64	11.28					7.07
Benchmark**	2.79	4.71	7.68	12.34					8.29
Net of Fee Alpha	(0.27)	(0.72)	(1.04)	(1.06)					(1.22)

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	6.1
Benchmark Duration	6.8
Average Maturity	8.8
Average Coupon	3.7
Average Quality	A-
Total Carry	6.4

Quality Breakdown

MV % Portfolio		MV % Benchmark
14	AAA	12
7	AA	14
33	A	41
43	BBB	33
3	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
9	13	3-5 years	0.5	0.9
29	15	5-7 years	1.8	1.0
16	9	7-8 years	1.0	0.6
21	9	8-10 years	1.3	0.6
29	46	10+ years	1.8	3.1
100	100	Total	6.1	6.8

Regional Breakdown (by currency of settlement)

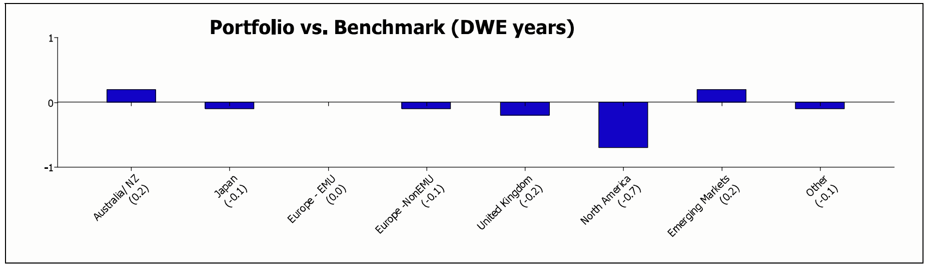
Duration Weighted Exposure%			Duration Weighted Exposure		FX Exposure
Portfolio	Benchmark		Portfolio	Benchmark	Portfolio
4.1	0.7	Australia/ NZ	0.2	0.0	96.8
10.1	10.5	Japan	0.6	0.7	-0.8
22.9	20.2	Europe - EMU	1.4	1.4	-1.3
0.0	0.8	Europe -NonEMU	0.0	0.1	0.0
7.8	10.1	United Kingdom	0.5	0.7	0.1
51.9	56.3	North America	3.2	3.8	4.5
3.2	0.6	Emerging Markets	0.2	0.0	0.7
0.0	0.8	Other	0.0	0.1	0.0
100.0	100.0	Total	6.1	6.8	100.0

Sector Breakdown

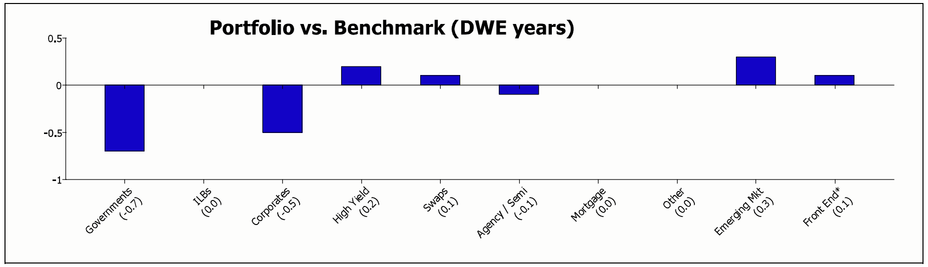
Duration Weighted Exposure %			Duration Weighted Exposure	
Portfolio	Benchmark		Portfolio	Benchmark
21	29	Governments	1.3	2.0
0	0	ILBs	0.0	0.0
65	65	Corporates	3.9	4.4
3	0	High Yield	0.2	0.0
1	0	Swaps	0.1	0.0
1	3	Agency / Semi	0.1	0.2
0	0	Mortgage	0.0	0.0
0	0	Other	0.0	0.0
8	3	Emerging Mkt	0.5	0.2
1	0	Front End*	0.1	0.0
100	100	Total	6.1	6.8

* 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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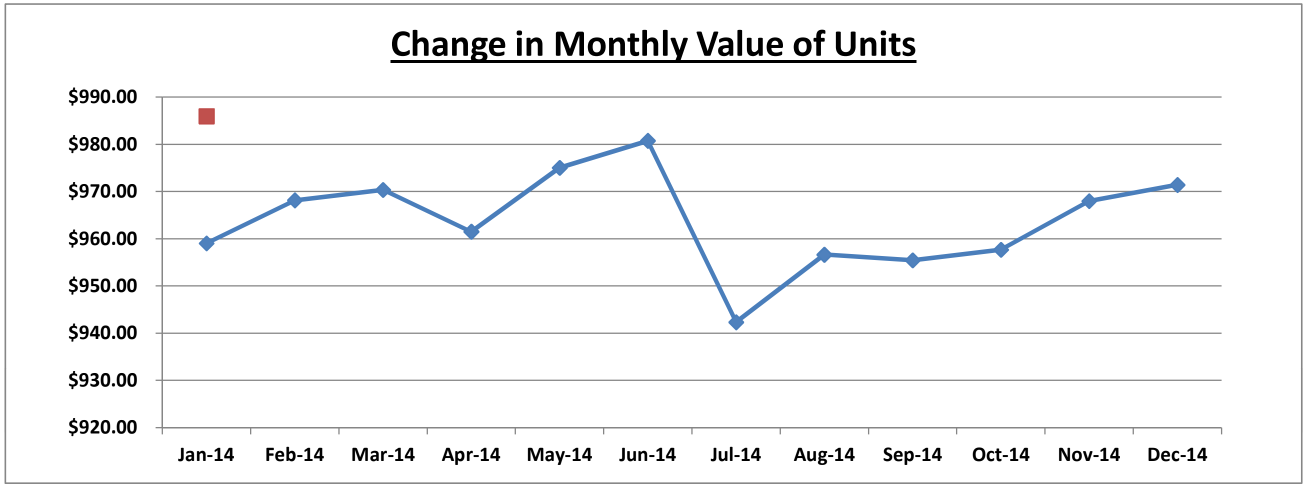
PIMCO MONTHLY COMPARISON REPORT

Month	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
$/Unit	$ 959.03	$ 968.15	$ 970.35	$ 961.52	$ 975.05	$ 980.76	$ 942.34	$ 956.64	$ 955.43	$ 957.69	$ 967.99	$ 971.42
Unit Monthly change		$ 9.12	$ 2.20	-$ 8.84	$ 13.54	$ 5.71	-$ 38.42	$ 14.30	-$ 1.21	$ 2.25	$ 10.31	$ 3.43

Month	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
$/Unit	$985.99											
Unit Monthly change	$14.57											



PIMCO
PIMCO AUSTRALIA PTY LTD
ABN 54 084 280 508
AFS Licence 246862

Level 19
363 George Street
Sydney NSW 2000
Australia
Tel: (02) 9279 1771
Fax: (02) 9279 2580

Caren J Rangi & Mark T Kilmister
ATF Eastern&Central Community Trust
211 Mutiny Road
R D 2 HASTINGS
NEW ZEALAND 9999

STATEMENT OF ACCOUNT

STATEMENT PERIOD: 01/01/2015-31/01/2015

ACCOUNT NUMBER: ECCOMMTR1

ACCOUNT NAME: Caren J Rangi & Mark T Kilmister ATF Eastern&Central Community Trust

FUND SUMMARY

FUND DESCRIPTION	$ PRICE PER UNIT 31/01/2015 NAV	UNITS OWNED 31/01/2015	MARKET VALUE 31/01/2015
PIMCO NZD Hedged Global Strategy Fund	985.9983 *	15,582.123	15,363,946.79
TOTAL MARKET VALUE			**15,363,946.79**

* Represents the last available price.

PIMCO AUSTRALIA PTY LTD
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Caren J Rangi & Mark T Kilmister
ATF Eastern&Central Community Trust
211 Mutiny Road
R D 2 HASTINGS
NEW ZEALAND 9999

ACCOUNT NUMBER: ECCOMMTR1

TRANSACTION SUMMARY

TRADE DATE	TRANSACTION DESCRIPTION	PRICE	UNITS	AMOUNT
PIMCO NZD Hedged Global Strategy Fund				
01-01-15	BALANCE FORWARD	971.4249 *	15,582.123	15,136,862.28
02-01-15	Total Distribution	0.0000	0.000	151,368.62
	TOTAL UNITS OWNED		**15,582.123**	

* Represents the last available price.

Eastern & Central Community Trust Inc

Monthly Report for January 2015

FORSYTH BARR | ESAM CUSHING

Transaction Summary

Eastern & Central Community Trust Inc

The bond purchases over the period were as follows:

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

Nil

The bond sales over the period were as follows:

Issuer	Maturity Date	Face Value	Proceeds[2]	Yield

Nil

The bond maturities over the period were as follows:

Issuer	Maturity Date	Face Value	Coupon

Nil

The cash purchases over the period were as follows:

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

Nil

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

Compliance Report

Eastern & Central Community Trust Inc

We confirm that we hold title, in the name of Forsyth Barr Custodians Limited, 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.

Commentary

During **January**, the following occurred:

- **Nil**

During **February** 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	12.9%
BBB+	$10,500,000	30.7%
BBB	$3,375,000	9.9%
BBB-	$1,000,000	2.9%
BB+	$6,104,000	17.9%
BB	$0	0.0%
BB-	$0	0.0%
Not Rated	$8,806,743	25.8%
	$34,185,743	**100%**
Average Weighted Credit:		**BBB-**

Portfolio Reconciliation

Eastern & Central Community Trust Inc

1. Market Value (Marked to Market)

Opening Value	$39,346,610.83
Contributions / (Withdrawals)	$0.00
Adjusted Opening Value	$39,346,610.83
Closing Value	**$39,759,957.68**
Monthly Change	$413,346.85

2. Capital Movements for Month

Opening Value	$36,137,879.90
Contributions / (Withdrawals)	$0.00
Plus Interest Received	$80,821.20
Adjusted Opening Value	$36,218,700.90
Closing Value	**$36,439,834.93**
Monthly Change	$221,134.03
Realised Gains	$0.00
Unrealised Change in Portfolio Value	$221,134.03

3. Accrued Interest for Month

Opening Value	$278,437.33
Closing Value	$409,122.75
Monthly Change	$130,685.42

Accrued Interest

Eastern & Central Community Trust Inc

1870575 GPW

Saturday 31 January 2015

Reporting Currency: New Zealand Dollar

Security	Amount Accrued
ASB Bank Limited Subordinated Notes 15/06/2024 6.65%	17,363.89
Auckland International Airport Limited 15/11/2016 8.00%	34,033.15
Christchurch International Airport Limited 04/10/2021 6.25%	40,865.38
Contact Energy Limited 15/05/2019 5.80%	16,686.82
Fletcher Building Industries Limited 15/03/2019 6.45%	12,294.20
Fletcher Building Industries Limited 15/05/2016 7.75%	24,727.21
Genesis Energy Limited 15/09/2016 7.185%	27,390.33
GMT Bond Issuer Limited 19/06/2015 7.75%	18,310.44
Infratil Limited 15/11/2015 8.50%	8,892.66
Infratil Limited 15/11/2018 6.85%	2,794.91
Kiwi Capital Funding Limited 15/07/2024 6.61%	730.39
Kiwi Property Group Limited 20/08/2021 6.15%	20,555.71
Kiwibank Limited 15/12/2017 5.80%	4,493.41
Meridian Energy Limited 16/03/2017 7.55%	28,573.20
Mighty River Power Limited Capital Bonds 11/07/2044 6.90%	7,168.33
Powerco Limited 28/09/2017 6.74%	7,956.94
Powerco Limited 29/06/2015 6.53%	4,489.38
Sky Network Television Limited 31/03/2021 6.25%	1,345.49
Spark Finance Limited 22/03/2016 7.04%	61,142.98
TrustPower Limited 15/09/2019 6.75%	19,828.12
TrustPower Limited 15/12/2015 8.40%	5,483.33
Vector Limited 15/06/2017 7.00%	17,408.08
Wellington International Airport Limited 15/05/2021 6.25%	26,588.40
Total	**409,122.75**

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.

Interim Only

Cash Ledger

Eastern & Central Community Trust Inc
1870575 GPW

From 1 January 2015 To 31 January 2015

1. Current Cash Holdings

Currency	Amount	FX Rate	NZ Dollar Value
New Zealand Dollar			
Forsyth Barr Cash Management	4,155,567.01	1.0000	4,155,567.01
			4,155,567.01

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. This report is not intended to replace your regular 'full' quarterly report. 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. If you are unsure of the appropriate tax treatment of your investments, you should consult your tax advisor.

Interim Only

Cash Ledger

Eastern & Central Community Trust Inc
1870575 GPW
From 1 January 2015 To 31 January 2015

2. Cash Transactions

Date	Transaction		Value
New Zealand Dollar			
Forsyth Barr Cash Management		***Opening Balance:***	***4,084,120.81***
08/01/15	Transfer from Account Ledger		11,468.75
12/01/15	Transfer from Account Ledger		32,257.50
15/01/15	Transfer from Account Ledger		14,825.05
15/01/15	Transfer from Account Ledger		8,262.50
21/01/15	Transfer to Account Ledger		-9,375.00
31/01/15	Interest Received - Forsyth Barr Cash Management		14,007.40
		Closing Balance:	***4,155,567.01***
Account Ledger		***Opening Balance:***	***0.00***
08/01/15	Interest Received - Rabobank Nederland Perpetual 4.5875%		11,468.75
08/01/15	Transfer from Account Ledger		-11,468.75
12/01/15	Interest Received - Mighty River Power Limited Capital Bonds 11/07/2044 6.90%		32,257.50
12/01/15	Transfer from Account Ledger		-32,257.50
15/01/15	Interest Received - Genesis Energy Limited 15/07/2041 6.19%		14,825.05
15/01/15	Interest Received - Kiwi Capital Funding Limited 15/07/2024 6.61%		8,262.50
15/01/15	Transfer from Account Ledger		-14,825.05
15/01/15	Transfer from Account Ledger		-8,262.50
21/01/15	Portfolio Fee		-9,375.00
21/01/15	Transfer to Account Ledger		9,375.00
		Closing Balance:	***0.00***

Cash Ledger

Eastern & Central Community Trust Inc
1870575 GPW

From 1 January 2015 To 31 January 2015

3. Foreign Exchange Transactions

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

Date	Transaction	Currency	Value	FX Rate	NZ Dollar Value

Contributions & Progress

Eastern & Central Community Trust Inc

1870575 GPW

From 1 January 2015 To 31 January 2015

Transaction Date	Security	Transaction Description	Net Amount (Native)	FX Rate	Net Amount (NZD)

All figures are shown in New Zealand Dollars (NZD)

Opening Portfolio Valuation	**39,350,202.20**

No securities transferred or cash contributions/withdrawals recorded for this period.

Closing Portfolio Valuation	**39,759,957.68**

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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Distributions Receivable

Eastern & Central Community Trust Inc

1870575 GPW

Saturday 31 January 2015

Reporting Currency:

Trade Date	Payment Date	Security	Net Amount
Total			

These dividends indicate what we expect to receive but final allocations are 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.

FORSYTH BARR

Interim Only

Income Summary

Eastern & Central Community Trust Inc
1870575 GPW

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

From 1 January 2015 to 31 January 2015

All figures are shown in New Zealand Dollars (NZD)	Gross Amount	PIE Tax	Withholding Tax	Imputation Credits	Withholding Payment Credits	Issuer Management Fees	Net Amount
Cash & At Call	14,007.40						14,007.40
Fixed Interest	66,813.80						66,813.80
New Zealand Equities							
Foreign Equities							
Total Portfolio Income	**80,821.20**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**80,821.20**

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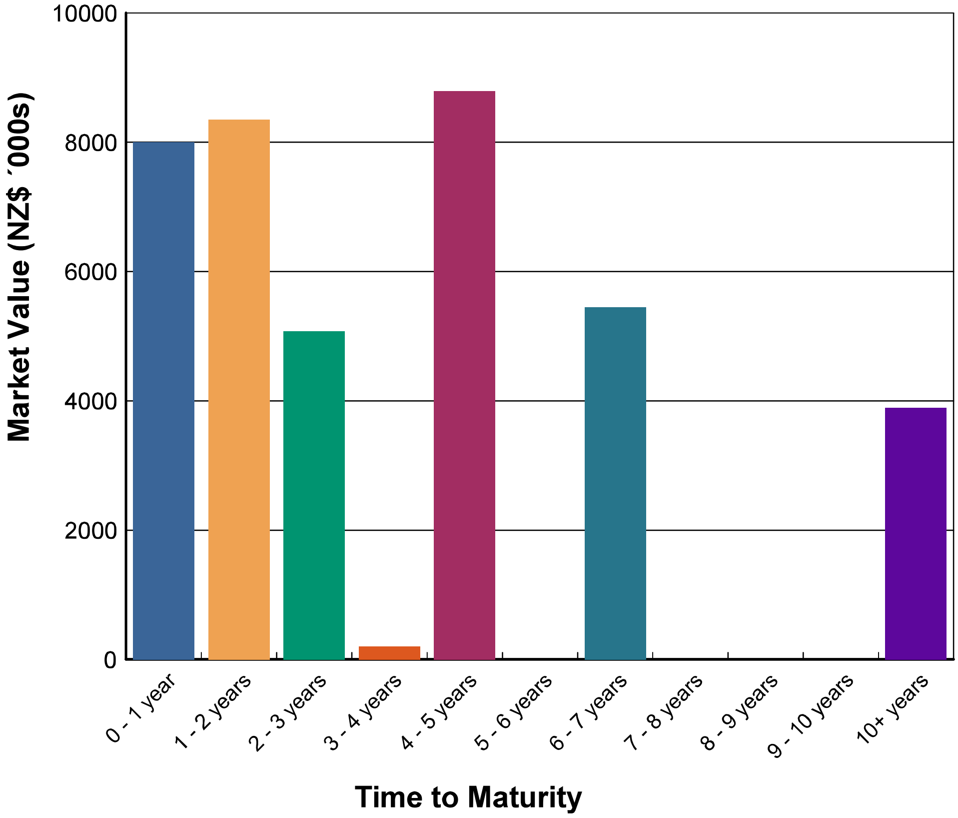
Interim Only

Maturity Profile

Eastern & Central Community Trust Inc

1870575 GPW

31 January 2015



Maturity	Market Value NZ$	Profile %
0 - 1 year	8,001,848.69	20.13
1 - 2 years	8,350,832.29	21.00
2 - 3 years	5,074,757.92	12.76
3 - 4 years	206,404.23	0.52
4 - 5 years	8,788,683.84	22.10
5 - 6 years	0.00	0.00
6 - 7 years	5,442,564.71	13.69
7 - 8 years	0.00	0.00
8 - 9 years	0.00	0.00
9 - 10 years	0.00	0.00
10+ years	3,894,866.00	9.80
Total	**39,759,957.68**	**100.00**

Interim Only

Portfolio Appraisal

Securities listed by market on which they trade

Eastern & Central Community Trust Inc
1870575 GPW

Saturday 31 January 2015

New Zealand Dollar

Quantity	Security	Unit Cost	Total Cost	Current Price	Market Value	% Asset (1)
		Local Currency				
Cash						
At Call						
	Forsyth Barr Cash Management		4,155,567.01		4,155,567.01	10.5%
			4,155,567.01		**4,155,567.01**	**10.5%**
Fixed Interest						
Direct						
2,000,000	GMT Bond Issuer Limited 19/06/2015 7.75%	1.01	2,016,412.80	1.013	2,025,717.90	5.1%
750,000	Powerco Limited 29/06/2015 6.53%	0.95	714,584.56	1.009	756,627.41	1.9%
500,000	Infratil Limited 15/11/2015 8.50%	1.00	500,000.00	1.027	513,476.84	1.3%
500,000	TrustPower Limited 15/12/2015 8.40%	1.00	500,000.00	1.027	513,283.72	1.3%
2,400,000	Spark Finance Limited 22/03/2016 7.04%	1.00	2,400,000.00	1.033	2,478,652.16	6.4%
1,500,000	Fletcher Building Industries Limited 15/05/2016 7.75%	1.00	1,500,000.00	1.031	1,546,856.15	4.0%
1,000,000	Genesis Energy Limited 15/09/2016 7.185%	1.01	1,005,116.20	1.045	1,044,915.88	2.7%
1,000,000	Sky Television Network Limited 16/10/2016 4.43%	1.00	995,995.00	0.995	995,200.00	2.5%
2,000,000	Auckland International Airport Limited 15/11/2016 8.00%	1.00	2,000,000.00	1.069	2,137,914.43	5.5%
1,000,000	Meridian Energy Limited 16/03/2017 7.55%	1.00	1,000,000.00	1.062	1,062,025.91	2.7%
1,926,000	Vector Limited 15/06/2017 7.00%	1.01	1,943,434.57	1.042	2,006,593.01	5.1%
1,250,000	Powerco Limited 28/09/2017 6.74%	0.93	1,158,448.47	1.049	1,311,369.35	3.3%
600,000	Kiwibank Limited 15/12/2017 5.80%	1.00	600,000.00	1.061	636,338.02	1.6%
195,000	Infratil Limited 15/11/2018 6.85%	1.00	195,000.00	1.044	203,609.32	0.5%

FORSYTH BARR

Interim Only

Portfolio Appraisal

Securities listed by market on which they trade

Eastern & Central Community Trust Inc
1870575 GPW

Saturday 31 January 2015

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	1.025	512,633.62	1.3%
1,375,000	Contact Energy Limited 15/05/2019 5.80%	1.00	1,375,000.00	1.046	1,438,901.19	3.7%
2,000,000	ASB Bank Limited Subordinated Notes 15/06/2024 6.65%	1.00	2,000,000.00	1.062	2,123,102.02	5.4%
1,870,000	Mighty River Power Limited Capital Bonds 11/07/2044 6.90%	1.00	1,870,000.00	1.065	1,991,566.16	5.0%
250,000	Kiwi Capital Funding Limited 15/07/2024 6.61%	1.00	250,000.00	1.043	260,826.38	0.7%
2,250,000	TrustPower Limited 15/09/2019 6.75%	1.00	2,250,000.00	1.061	2,387,582.72	6.1%
250,000	Sky Network Television Limited 31/03/2021 6.25%	1.00	250,000.00	1.065	266,346.58	0.7%
2,000,000	Wellington International Airport Limited 15/05/2021 6.25%	1.00	2,000,000.00	1.077	2,154,489.27	5.5%
750,000	Kiwi Property Group Limited 20/08/2021 6.15%	1.00	750,000.00	1.064	797,672.72	2.1%
2,000,000	Christchurch International Airport Limited 04/10/2021 6.25%	1.01	2,014,084.40	1.067	2,134,701.16	5.5%
958,000	Genesis Energy Limited 15/07/2041 6.19%	1.07	1,022,535.58	1.027	983,866.00	2.5%
	Accrued Interest				409,122.75	1.0 %
Perpetuals						
500,000	ANZ Bank New Zealand Limited Perpetual 5.28%	1.00	500,000.00	1.020	510,000.00	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	84.000	1,071,000.00	2.7%

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Interim Only

Portfolio Appraisal

Securities listed by market on which they trade

Eastern & Central Community Trust Inc
1870575 GPW

Saturday 31 January 2015

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	0.950	950,000.00	2.4%
			34,286,306.02		**35,604,390.67**	**89.5%**
Total			**38,441,873.03**		**39,759,957.68**	**100.0%**

Exchange rate to New Zealand Dollar (FX = 1.0000)
New Zealand Dollar Market Value of New Zealand Dollar assets:

$39,759,957.68

Interim Only

Portfolio Appraisal

Securities listed by market on which they trade

Eastern & Central Community Trust Inc
1870575 GPW

Saturday 31 January 2015

New Zealand Dollar

Quantity	Security	Local Currency				
		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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FORSYTH BARR **Interim Only**

Portfolio Summary

Eastern & Central Community Trust Inc

1870575 GPW

Saturday 31 January 2015

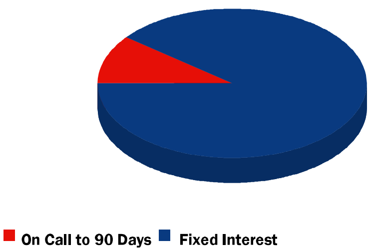
Premium Advisory Service

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.

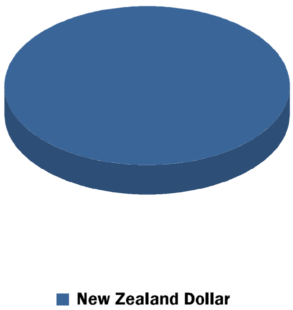
Asset Allocation [1]



	NZ Dollar Value	Portfolio %
On Call to 90 Days	4,155,567.01	10.5
Fixed Interest	35,604,390.67	89.5
TOTAL	**$39,759,957.68**	**100.0**

1. Underlying sectors in which the portfolio is invested

Portfolio Valuation [2]



Assets by Currency		Exch Rate	NZ Dollar Value
New Zealand Dollar	39,759,957.68	1.0000	39,759,957.68
TOTAL			**$39,759,957.68**

2. Currency of market on which the security trades

Interim Only

Transactions

Securities listed by market on which they trade

Eastern & Central Community Trust Inc

1870575 GPW

From 1 January 2015 To 31 January 2015

				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**

FORSYTH BARR

Interim Only

Transactions

Securities listed by market on which they trade

Eastern & Central Community Trust Inc

1870575 GPW

From 1 January 2015 To 31 January 2015

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

Back to agenda

Report type:	Financial Information Papers
Recommendation:	The Executive notes the financial advisor's monthly report of the Trust Investment Portfolio as at 31st January 2015.
Agenda item no:	8
Subject:	Investment Portfolio Report
Responsible for the report:	General Manager

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

Investment monitoring

report & analysis to 31 January 2015

Contents **Page**

19 February 2015

Eastern & Central COMMUNITY TRUST

MCA - actuaries & consultants -

31 January 2015

Overall Trust return (%)

	Month	Year-to-date (10 months)
Income return	0.34%	4.18%
Market movement	3.36%	8.85%
Total return	3.69%	13.37%

Summarised accounts ($)

		Month		Year-to-date
Assets at start		158,883,200		150,049,641
Net cash flow		(347,796)		(5,310,529)
Income received/ (paid)	534,773		6,310,263	
Growth gains/ (losses)	5,327,930		13,348,732	
Total investment gains/ (losses)		5,862,703		19,658,995
Assets at end		164,398,107		164,398,107
Income sector assets at end				62,864,323 (38.2%)
Growth sector assets at end				101,533,783 (61.8%)

Objectives

Liquidity

Income

Growth

Strategy

Trust performance

Manager performance

Cash

NZ bonds

Overseas bonds

Total listed shares

Elevation Capital

Forsyth Barr

Summary

31 January 2015

Month

In respect of the investment results to 31 January 2015, we note:

- The asset value is $164,398,107, up $5.51m over the month [Last month: $158,883,200].
- The portfolio generated investment income of $534,773 [vs monthly budget: $568,310].
- The overall investment return for the month was positive 3.69%, i.e.$5,862,703.

Strategy

- The investment allocation to each sector is within ± 2.8% of the benchmark asset allocation.
- Listed shares is 2.6% below the benchmark, and Cash is 2.8% above the benchmark.
- The latest hedging contract position of overseas shares was: 50% hedged to Euro, USD and GBP; 0% hedged to AUD.

Market movements

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

All markets had a good month.

Investment managers' performance (relative to market indices)

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

All managers with the exception of NZ bonds had a good month.

Year (since 1 April 2014)

- The investment portfolio has generated $6,310,263 of income and experienced $13,348,732 of market movements since 1 April 2014. The total return has been $19,658,995 or 13.37% since 1 April 2014. The income level is above budget.

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.

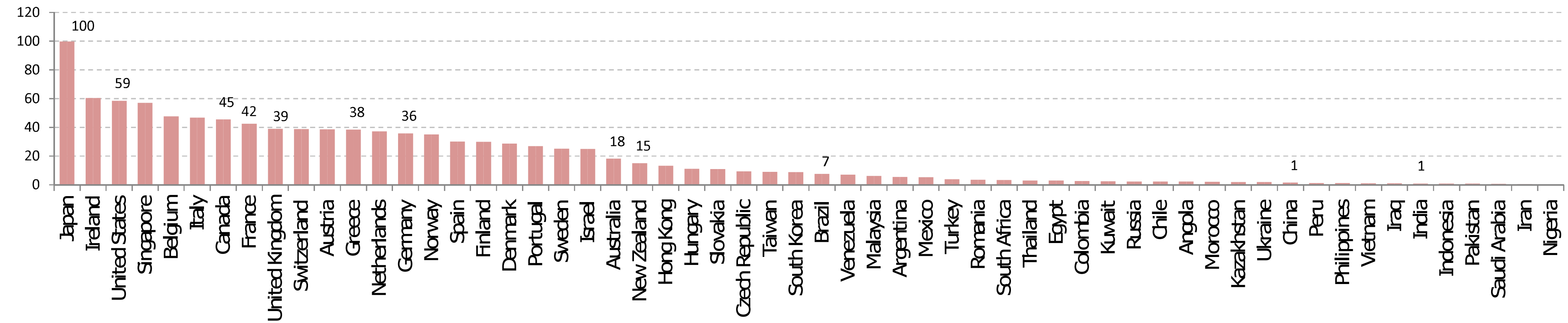
Monthly theme

Government Debt

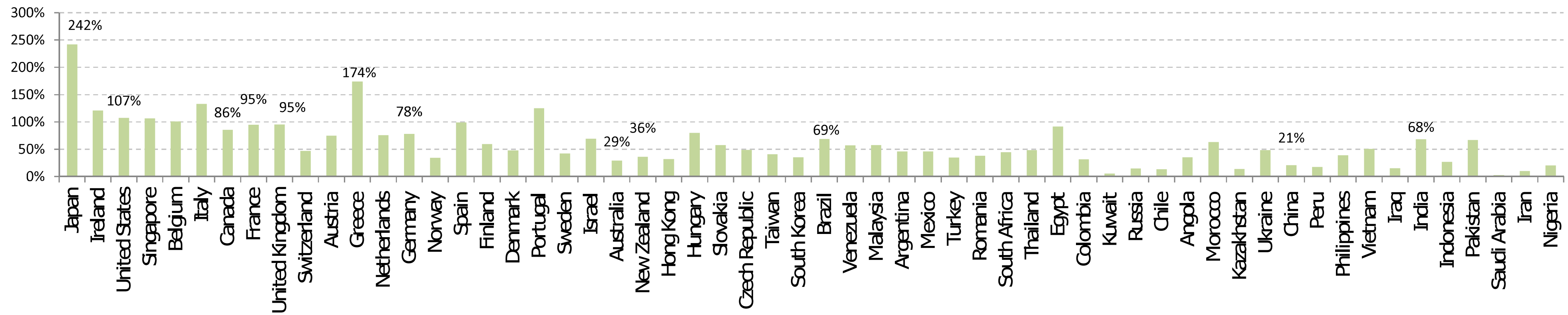
Government debt is the debt owed by the central government of a country and is one of the key methods of financing government operations. The graphs below show that the more government debt per capita of a given country, the higher the gross debt as a percentage of GDP for a country.

These graphs show that Japan, the US and Ireland have considerably high government debt per capita as well as government debt in excess of 100% of GDP. New Zealand and Australia feature lower in terms of gross debt as a percentage of GDP in comparison to other developed nations such as Japan, the US, Canada, France, the UK and Germany.

Government debt per capita of 58 selected countries - December 2014 ($US ooo's)



General government gross debt as a % of GDP - December 2014



Objectives

The investment policy objectives of the Trust are to:

Return

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

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

Risk

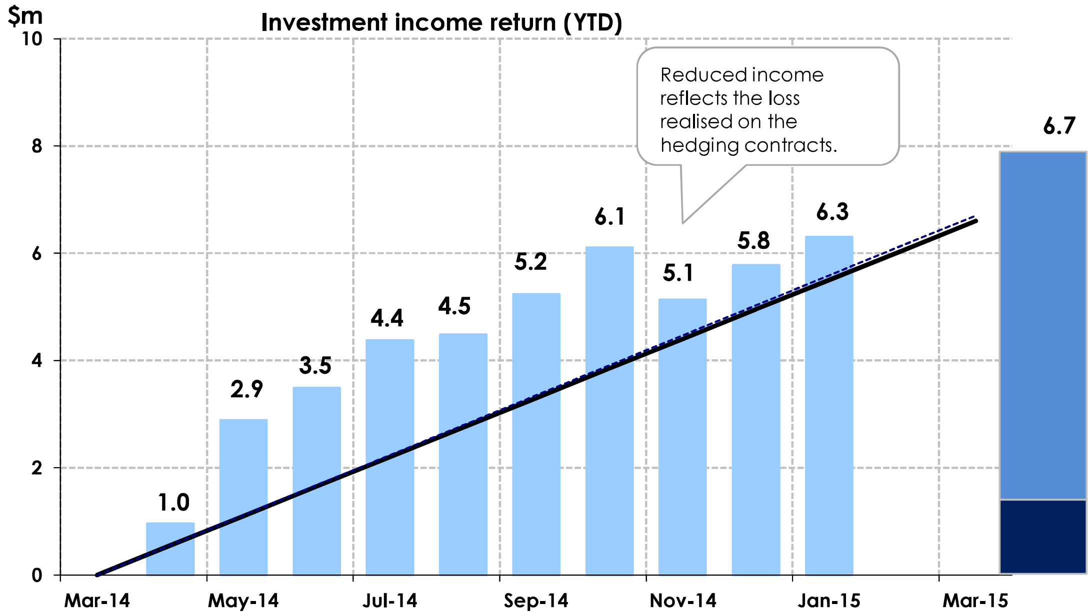
- to generate sufficient actual income each year to let the Trust donate 4% of the adjusted capital base at the start of the year and to meet the Trust's costs. $6.8m is budgeted for 2014/ 15.

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

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

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

The Trust is on target to achieve its income objective.

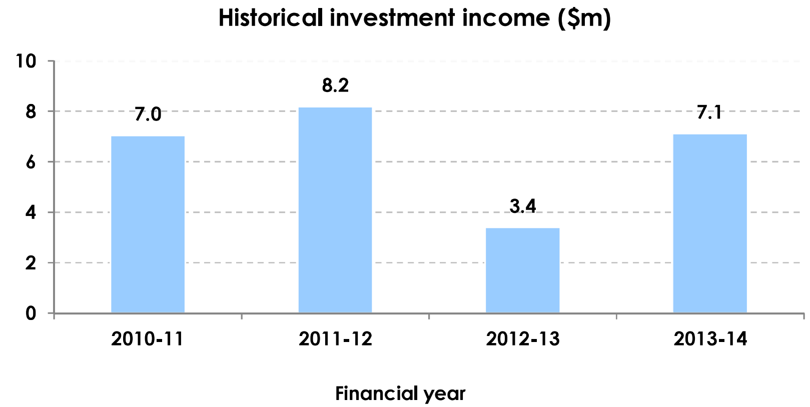


Total target is $6.7m

$6.8m target income

Target grants are $5.5m

Estimated operation costs are $1.2m

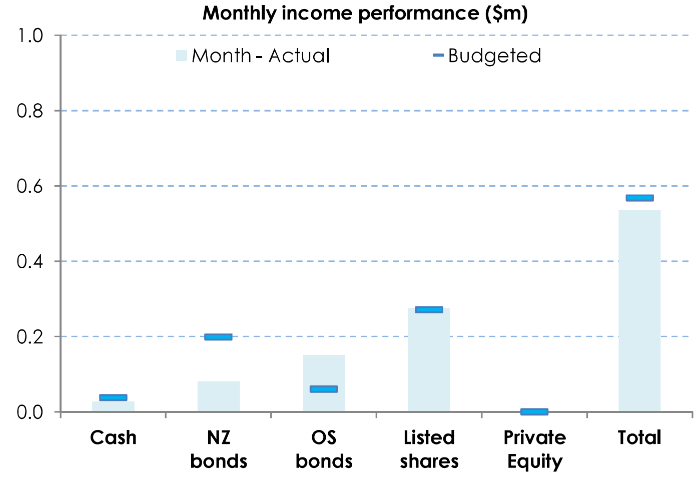


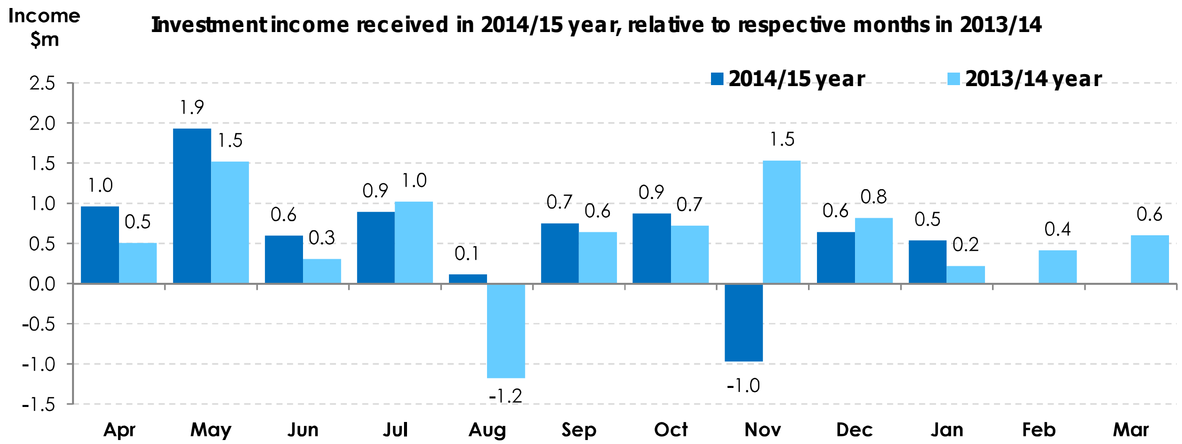
The income comes from interest, coupons, dividends and currency hedging settlements. Details of the source of the income by sector are on page 5.

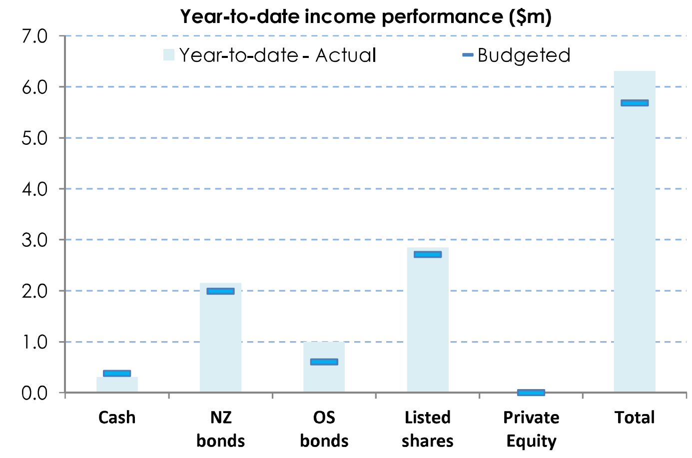
31 January 2015

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	0.08	0.15	0.27	0.00	0.53
Budget	0.04	0.20	0.06	0.27	0.00	0.57
Year-to-date						
Actual	0.31	2.15	1.00	2.85	0.00	6.31
Budget	0.38	1.99	0.60	2.71	0.00	5.68







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

Investment movement by sector

	Cash	NZ Bonds	OS Bonds	Listed shares	Private equity	Trust
Month						
Assets at 01 January 2015	**7,678,462**	**39,346,611**	**15,136,862**	**96,061,983**	**659,283**	**158,883,200**
Net investment earnings						
+ Dividends/ Coupons/ interest	27,884	80,821	151,369	274,699		534,773
+ Realised/ unrealised gains(losses)		332,526	232,080	4,763,324		5,327,930
	27,884	413,347	383,448	5,038,023		5,862,703
Capital movements	34,073	0	-156,364	-225,505		-347,796
Net change in market value	**61,957**	**413,347**	**227,085**	**4,812,517**		**5,514,907**
Assets at 31 January 2015	**7,740,419**	**39,759,958**	**15,363,947**	**100,874,500**	659,283	**164,398,107**
Year-to-date						
Assets at 01 April 2014	**10,807,068**	**39,801,233**	**12,077,149**	**86,749,749**	**614,442**	**150,049,641**
Net investment earnings						
+ Dividends/ Coupons/ interest	311,157	2,153,044	999,679	2,846,383		6,310,263
+ Realised/ unrealised gains(losses)		932,799	330,390	12,085,542		13,348,732
	311,157	3,085,843	1,330,069	14,931,925		19,658,995
Capital movements	-3,377,806	-3,127,119	1,956,729	-807,173	44,841	-5,310,528
Net change in market value	**-3,066,649**	**-41,276**	**3,286,798**	**14,124,751**	**44,841**	**14,348,466**
Assets at 31 January 2015	**7,740,419**	**39,759,958**	**15,363,947**	**100,874,500**	659,283	**164,398,107**

Allocation of capital & investment strategy

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

The allocation of capital is:

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

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

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

Investment strategy - by investment asset type

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

	Cash	Bonds	Shares	Total
Purpose	Liquidity Certainty Short-term	Income Reduced volatility Medium-term	Inflation protection Growth Long-term	Current grants Intergenerational Equity
Benchmark ($)	$10.00m	$50.00m	$104.40m	$164.40 m
Benchmark (%)	6.1%	30.5%	63.5%	100.0%
Current assets vs benchmark				
Current assets	$11.90 m	$50.97 m	$101.53 m	$164.40 m
Benchmark assets	$10.00 m	$50.00 m	$104.40 m	$164.40 m
Excess (shortfall)	$1.90 m	$0.97 m	-$2.86 m	$0.00 m
Current assets vs capital base				
Current assets	$11.90 m	$50.97 m	$101.53 m	$164.40 m
Capital base	$10.00 m	$50.00 m	$83.33 m	$143.33 m
Excess (shortfall)	$1.90 m	$0.97 m	$18.20 m	$21.07 m
Current assets vs 125% x capital base				
Current assets	$11.90 m	$50.97 m	$101.53 m	$164.40 m
Target assets	$10.00 m	$50.00 m	$119.16 m	$179.16 m
Excess (shortfall)	$1.90 m	$0.97 m	-$17.63 m	-$14.76 m

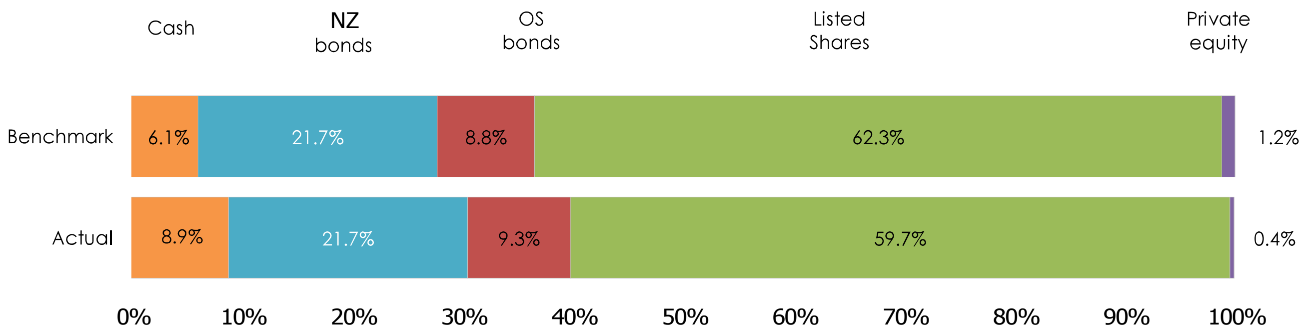
Notes:

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. $143.33m) 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.

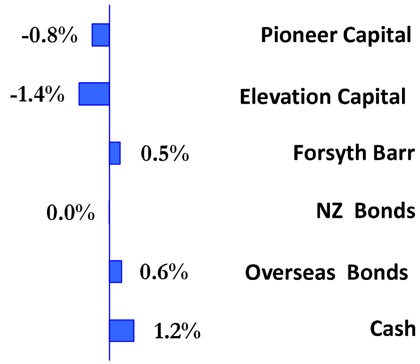
31 January 2015

Investment strategy - by manager and asset type

	Listed shares	Private equity	Bonds	Cash	Total	Actual	
						$	%
Growth							
Listed shares							
Elevation Capital	$45,793,534			$3,536,459	$49,329,993	$49.33m	30.0%
Forsyth Barr	$52,414,048			$104,737	$52,518,785	$52.52m	31.9%
Private equity							
Pioneer Capital		$659,283			$659,283	$0.66m	0.4%
						$102.51m	**62.4%**
Income							
NZ bonds			$35,604,391		$35,604,391	$35.60m	21.7%
Overseas bonds			$15,363,947		$15,363,947	$15.36m	9.3%
						$50.97m	**31.0%**
Cash							
Trust				$7,740,419	$7,740,419	$7.74m	4.7%
Forsyth Barr Esam Cushing				$4,155,567	$4,155,567	$4.16m	2.5%
FX Overlay1				-$974,277	-$974,277	-$0.97m	-0.6%
						$10.92m	**6.6%**
Total	$98,207,581	$659,283	$50,968,337	$14,562,905	$164,398,107		
Current allocation (%)	**59.7%**	**0.4%**	**31.0%**	**8.9%**	**100.0%**		
Difference from benchmark	-2.5%	-0.8%	0.6%	2.8%			
Benchmark	**62.3%**	**1.2%**	**30.4%**	**6.1%**	**100.0%**		
Indices used for comparison	MSCI world net div (currency unhedged)	NZX 50 index	ANZ Corp A grade/Citigroup WGBI index	NZX call index			



Position from benchmark



Investment returns & currency

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

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

Trust performance - current year and historically

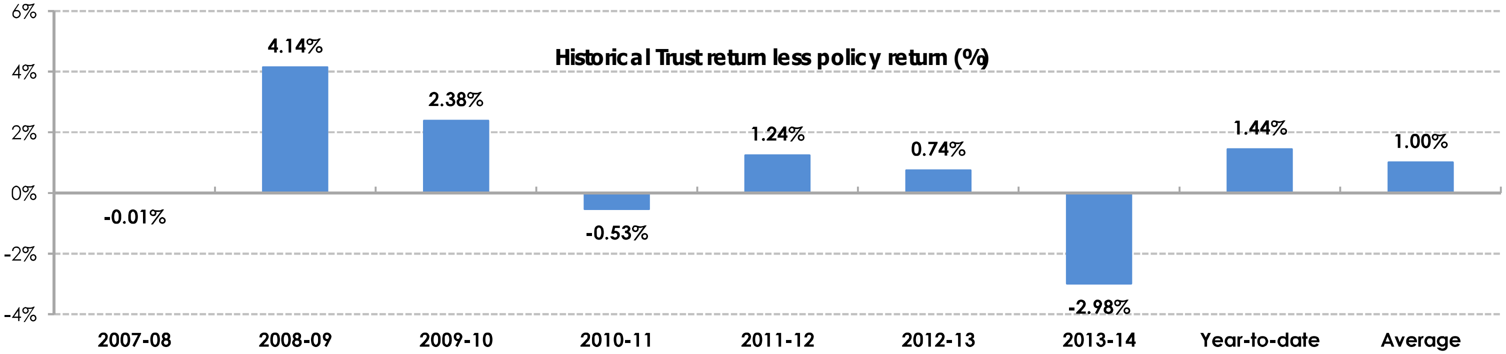
The "Trust return" is the overall performance of the Trust and includes both the income and the change in the market value of the assets. The "policy return" is the return of the Trustees' investment policies in the context of what happened in the investment markets. Details of the returns of the different investment market sectors are shown on page 18 and details of the indices are on page 35.

For the year-to-date, the Trust has achieved a total return of 13.37%, which was 1.44% above the policy return. The 1.44% represents a Trust return of $1.85m, above what the policy return achieved.

	Trust return (%)	Policy return (%)	Difference (%)	Trust ($m)	Policy ($m)	Difference ($m)
January-15	3.69%	2.20%	1.49%	$5.86	$3.62	$2.24
Year-to-date	13.37%	11.93%	1.44%	$19.66	$17.81	$1.85
March-15						
February-15						
January-15	3.69%	2.20%	1.49%	$5.86	$3.62	$2.24
December-14	(0.03%)	(0.24%)	0.21%	($0.05)	($0.39)	$0.34
November-14	0.88%	1.49%	(0.61%)	$1.40	$2.38	($0.98)
October-14	1.32%	0.97%	0.35%	$2.07	$1.54	$0.53
September-14	0.00%	1.17%	(1.17%)	$1.71	$1.84	($0.13)
August-14	1.57%	2.23%	(0.65%)	$2.40	$3.41	($1.01)
July-14	0.68%	0.48%	0.20%	$1.04	$0.74	$0.30
June-14	0.00%	0.05%	(0.05%)	($0.06)	$0.08	($0.14)
May-14	1.48%	1.92%	(0.43%)	$2.27	$2.93	($0.66)
April-14	2.01%	1.10%	0.91%	$3.01	$1.65	$1.36

Trust performance - Historical

	Trust (%)	Policy (%)	Difference (%)
Year-to-date	13.37%	11.93%	1.44%
2013-14	6.26%	9.24%	(2.98%)
2012-13	10.61%	9.87%	0.74%
2011-12	(0.39%)	(1.63%)	1.24%
2010-11	7.44%	7.97%	(0.53%)
2009-10	26.25%	23.88%	2.38%
2008-09	(8.51%)	(12.65%)	4.14%
2007-08	(2.43%)	(2.42%)	(0.01%)
Since inception (% p.a.)	7.42%	6.42%	1.00%



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%.

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	$2,138,088	$947,290	$1,190,798
Currency movement (50% hedged)	$2,032,117	$986,350	$1,045,766
Policy return	**$4,170,205**	**$1,933,640**	**$2,236,565**
Currency management	$486,932	$225,768	$261,164
Total return	**$4,657,137**	**$2,159,408**	**$2,497,729**

Note:

The return on the combined Forsyth Barr and Elevation Capital managed shares for the month was $6,202,322. This can be split between the market movement and the movement in the NZ dollar.

Market movement	$2,138,088
Exchange rate movement	$4,064,234
	$6,202,322

The Trust's policy is to be 50% hedged, therefore the policy return for the month is $4,170,205, i.e. the market movement and 50% of the exchange rate movement. The total return from the listed shares was $4,657,137. Therefore the hedging management policy, to depart from the neutral position, increased $486,932 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	($330,378)	$2,138,088			$6,887,103
Application of 50% neutral policy	$370,293	$355,157	($853,409)	$759,170	$456,334	$1,747,964	($50,179)	($809,483)	($326,371)	$2,032,117			$3,681,592
= Benchmark return	**$2,034,927**	**$998,350**	**($328,645)**	**$102,114**	**$1,373,727**	**$841,273**	**$666,185**	**$1,367,308**	**($656,748)**	**$4,170,205**			**$10,568,695**
Impact movement of policy from 50%	($50,549)	$277,901	($50,135)	$167,023	$295,453	$183,885	$230,250	($514,381)	$22,366	$486,932			$1,048,746
= Total return	**$1,984,378**	**$1,276,251**	**($378,780)**	**$269,138**	**$1,669,180**	**$1,025,158**	**$896,435**	**$852,926**	**($634,382)**	**$4,657,137**			**$11,617,441**

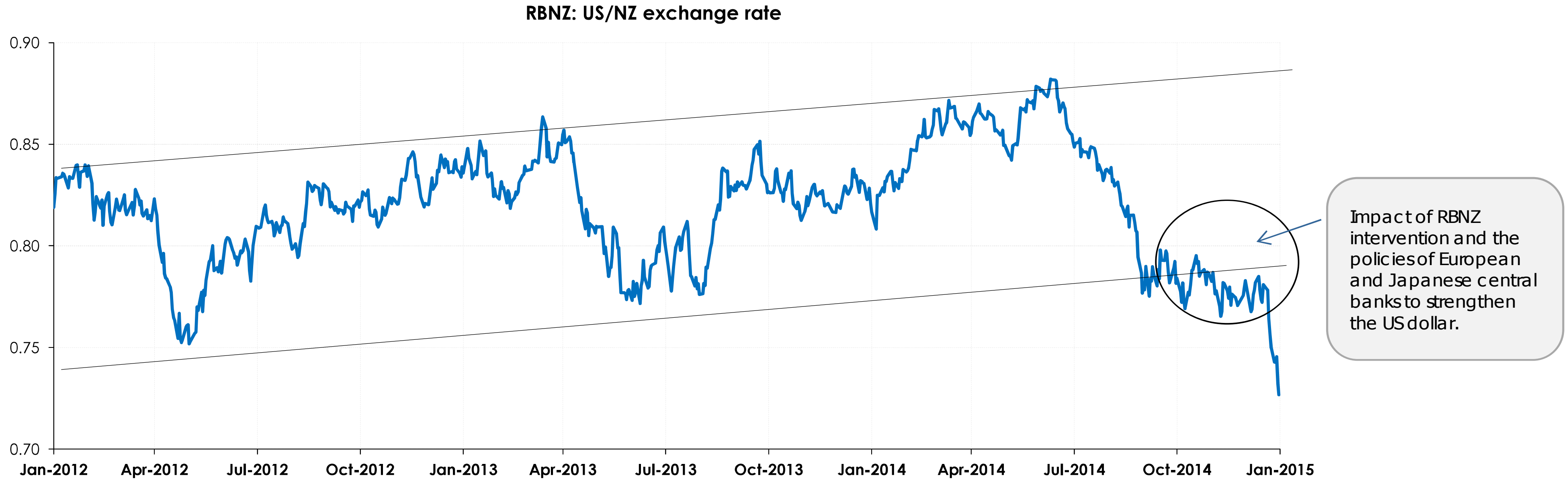
Hedging levels

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 31 January 2015, the individual currency target hedging levels were:

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

On 31 January 2015, the RBNZ US$/ NZ$ exchange rate was 0.7268. Since 31 January 2012 it has been:



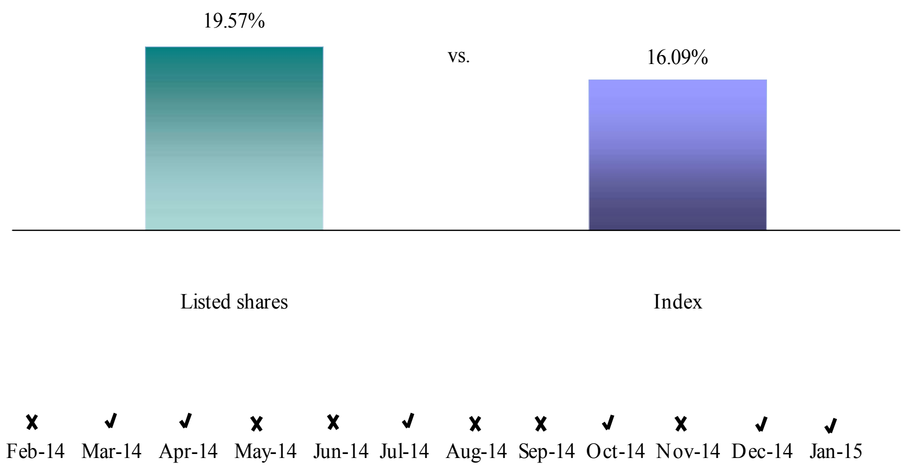
Manager performance

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

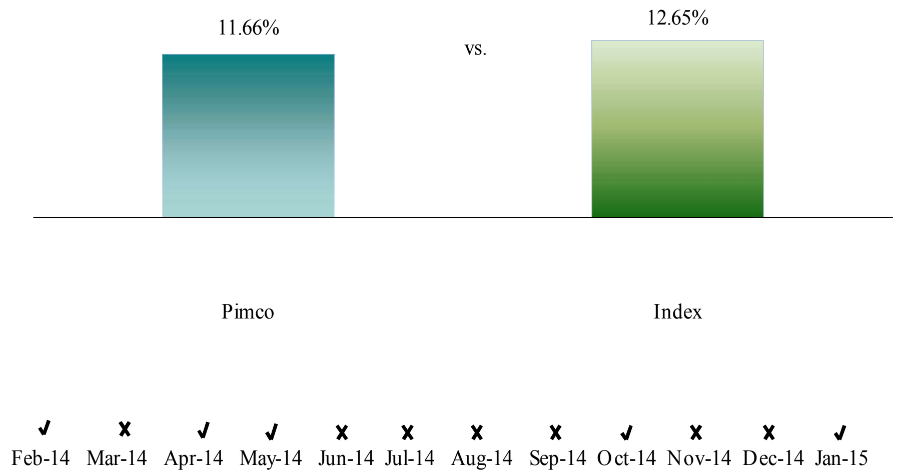
Last 12 months' performance relative to market benchmark returns

Details of the indices are on page 35.

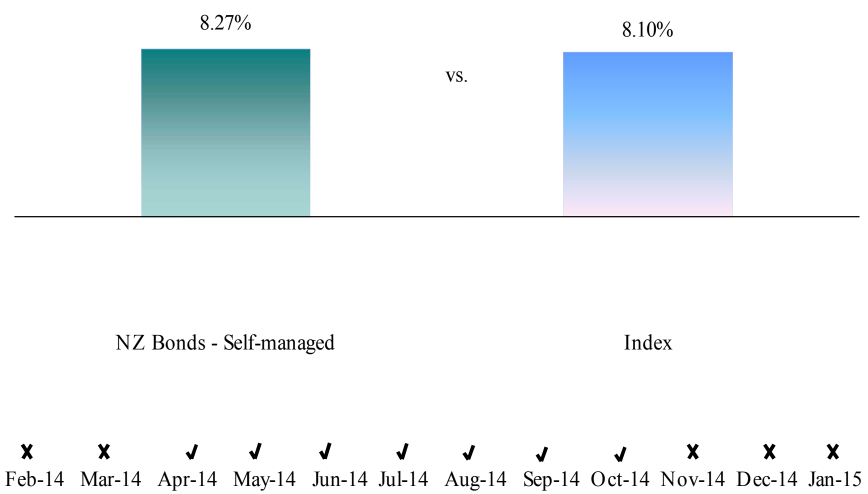
Listed shares



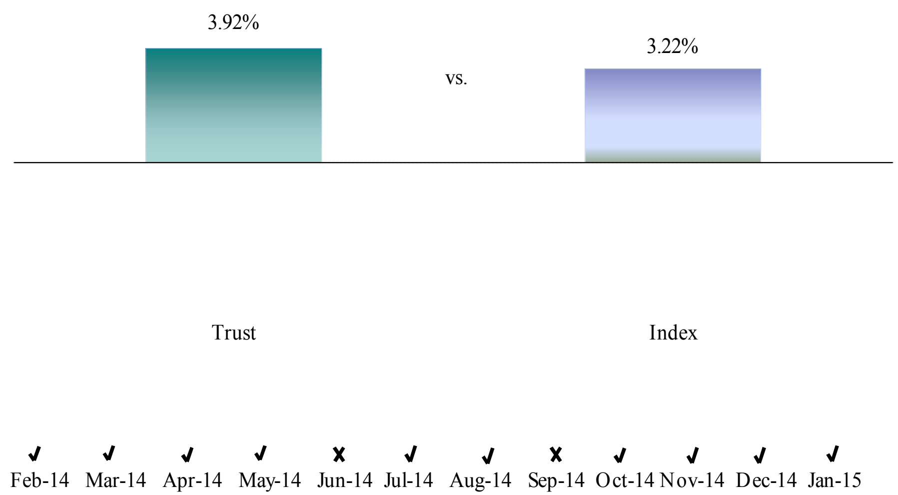
OS bonds - Pimco



NZ bonds - Self-managed



Cash - Self-managed



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: 1.88%

Benchmark return	+	Asset allocation	+	Stock selection	+	Timing effect	=	Actual return
13.10%	+	-0.09%	+	4.76%	+	-2.79%	=	14.98%

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: 1.44%

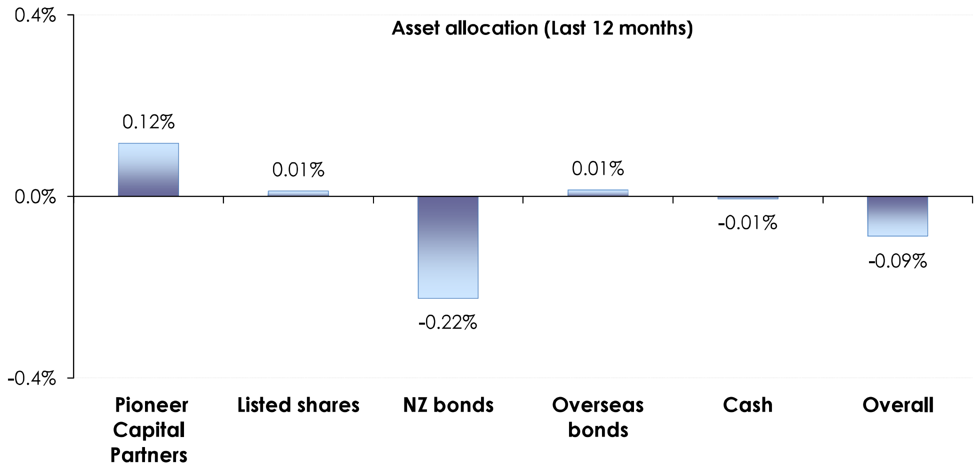
Benchmark return	+	Asset allocation	+	Stock selection	+	Timing effect	=	Actual return
11.93%	+	-0.06%	+	4.48%	+	-2.98%	=	13.37%

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".

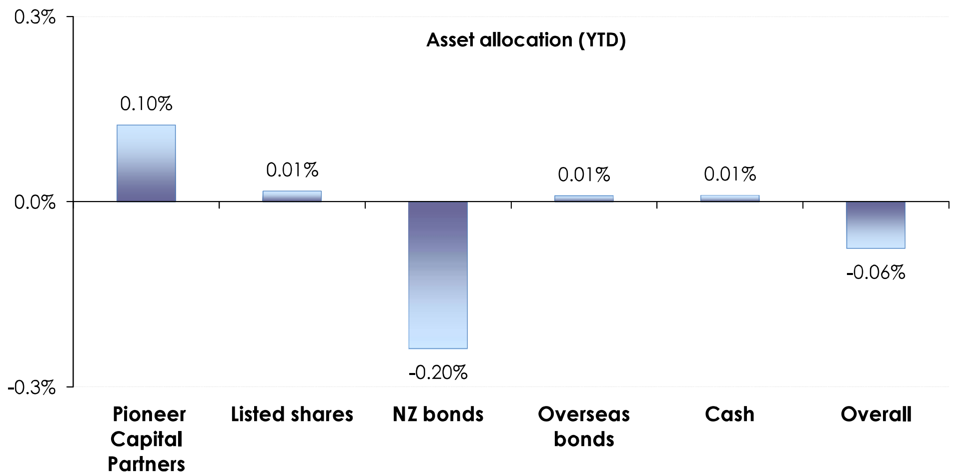
Asset allocation attribution analysis

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'

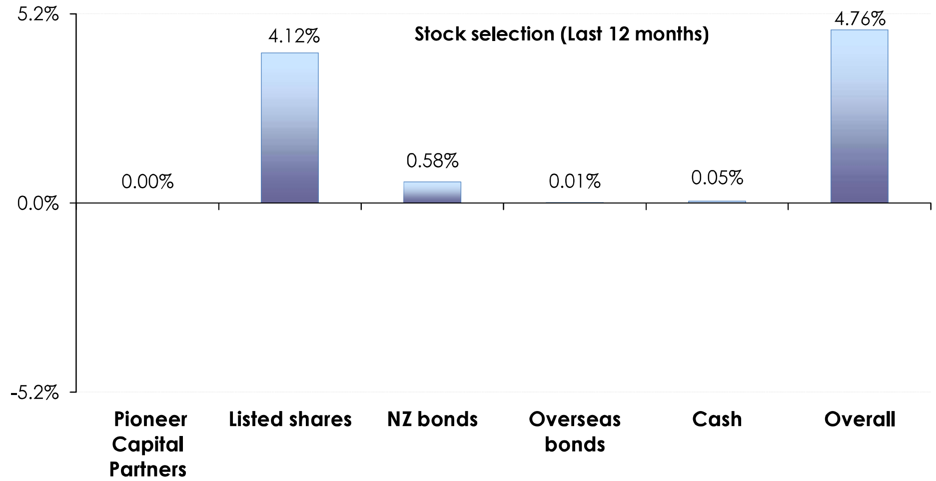


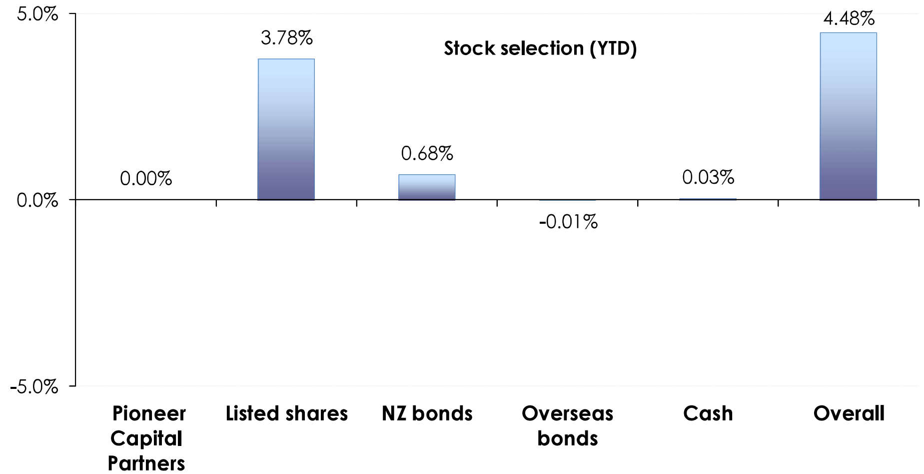
Year-to-date



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.





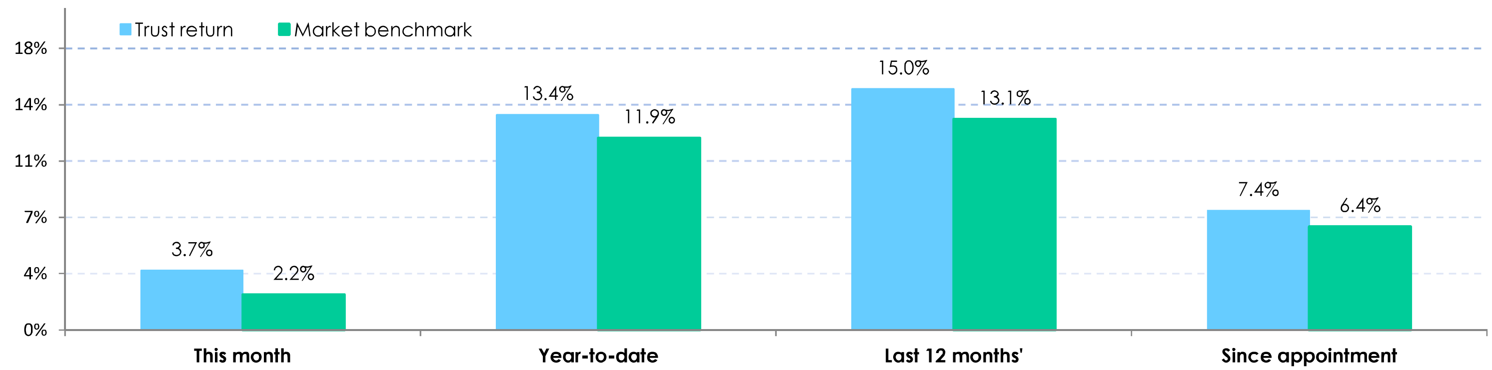
31 January 2015

Performance by manager

	This month (%) returns			Year-to-date (%) returns			Last 12 months' (%) returns			Since appointment (%p.a.) returns		
	Actual	Benchmark	Value added	Actual	Benchmark	Value added	Actual	Benchmark	Value added	Actual	Benchmark	Value added
Overall Trust return	3.69%	2.20%	1.49%	13.37%	11.93%	1.44%	14.98%	13.10%	1.88%	7.42%	6.42%	1.00%
Total shares	5.21%	2.59%	2.62%	17.31%	14.75%	2.57%	19.76%	16.09%	3.68%	8.35%	6.57%	1.78%
Listed shares	5.25%	2.59%	2.66%	17.39%	14.75%	2.64%	19.57%	16.09%	3.49%	12.58%	14.92%	-2.33%
Elevation Capital (portfolio)	5.16%	5.73%	-0.57%	18.02%	21.37%	-3.35%	18.00%	18.88%	-0.88%	9.88%	16.19%	-6.31%
Shares	7.19%	5.73%	1.47%	19.02%	21.37%	-2.35%	19.14%	18.88%	0.26%	9.52%	16.19%	-6.67%
Liquidity	2.89%			4.59%			3.66%			4.19%		
Forsyth Barr (portfolio)	5.34%	5.73%	-0.39%	23.26%	21.37%	1.89%	23.08%	18.88%	4.20%	15.18%	16.19%	-1.01%
Shares	7.00%	5.73%	1.27%	23.40%	21.37%	2.02%	23.22%	18.88%	4.34%	14.91%	16.19%	-1.28%
Liquidity	0.24%			-0.23%			-0.38%			0.75%		
Currency hedging	-1.61%	-3.13%	1.52%	-2.84%	-5.80%	2.96%	-0.97%	-2.74%	1.77%	0.16%	-1.31%	1.47%
Pioneer Capital Partners	0.00%			0.00%			0.00%			0.00%		
NZ bonds - Self-managed	1.05%	1.45%	-0.40%	7.99%	7.40%	0.59%	8.27%	8.10%	0.16%	7.71%	6.90%	0.81%
OS bonds - Pimco	2.55%	2.49%	0.06%	10.32%	11.55%	-1.23%	11.66%	12.65%	-0.99%	7.22%	7.99%	-0.76%
Self-managed - cash	0.36%	0.30%	0.06%	3.27%	2.77%	0.50%	3.92%	3.22%	0.71%	6.06%	5.22%	0.84%

Note: Details of the benchmark indices are on page 35.

Performance - Trust vs. Benchmark



Listed shares portfolio

Elevation Capital - Christopher Swasbrook

Forsyth Barr - Richard Burton

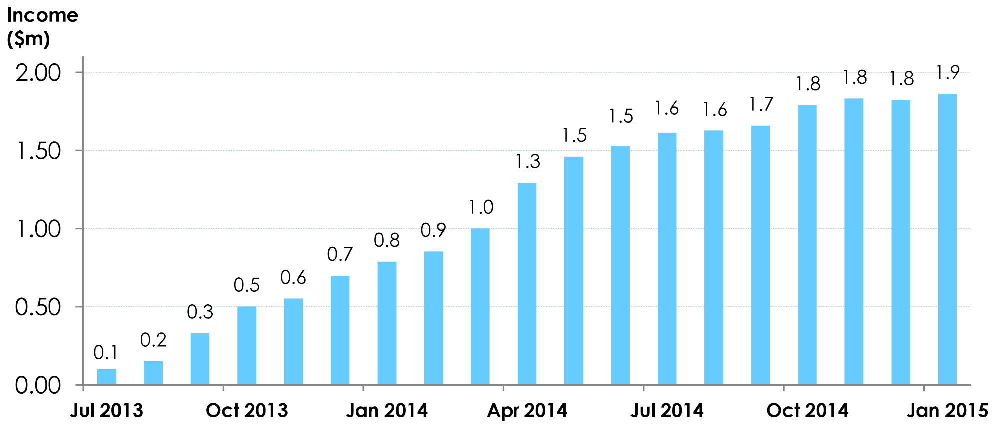
The objective of the portfolio is to provide:

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

Summary of Income

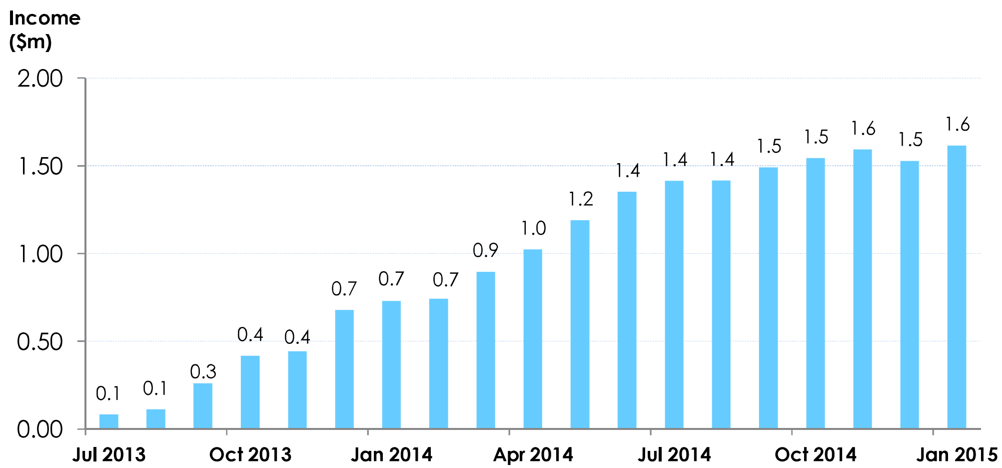
Cumulative dividend income for 12 month periods to month shown ($m)

Elevation Capital



Assets	$49,329,993
Distributions paid out since appointment	$2,569,607

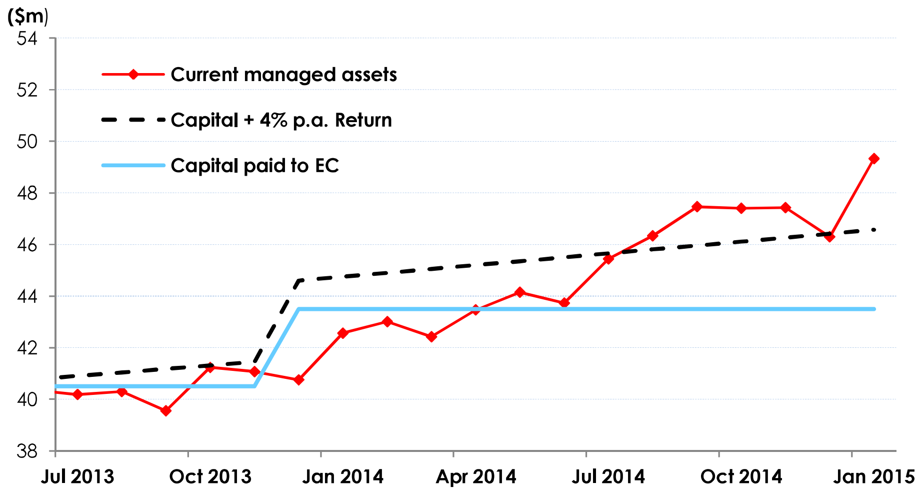
Forsyth Barr



Assets	$52,518,785
Distributions paid out since appointment	$2,246,794

Growth in portfolio

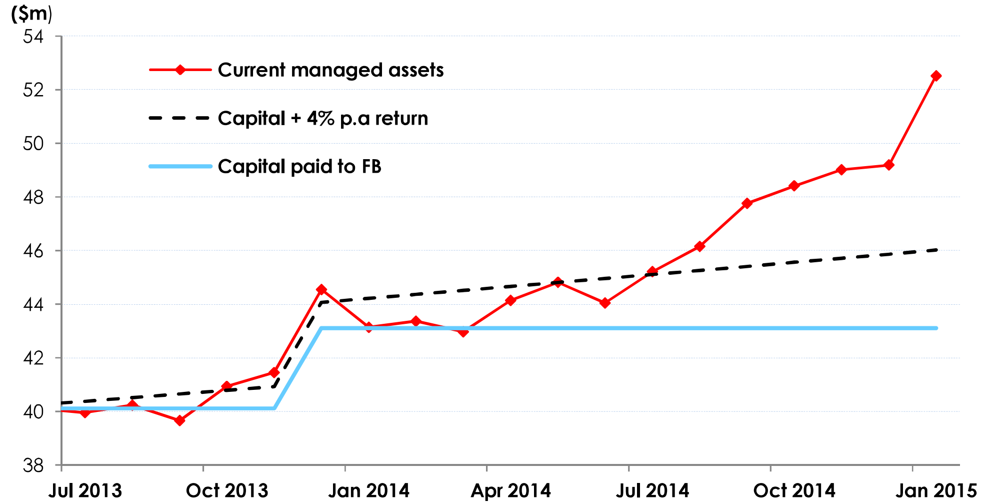
Elevation Capital



	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	$1,650,547	$2,651,316
Distributions paid to Trust	($1,684,975)	($2,569,607)
Market movement	$3,515,553	$1,205,046
Currency movement	$3,611,241	$1,006,779
Cash	$3,536,459	$3,536,459
Value at 31 Jan 2015	**$49,329,993**	**$49,329,993**

Note: Elevation Capital has also returned $2.57m 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	$1,450,144	$2,305,736
Distributions paid to Trust	($1,423,997)	($2,246,794)
Market movement	$6,278,081	$8,124,365
Currency movement	$3,751,944	$1,117,070
Cash	$104,737	$104,737
Value at 31 Jan 2015	**$52,518,785**	**$52,518,785**

Note: Forsyth Barr has also returned $2.25m to the Trust since appointment.

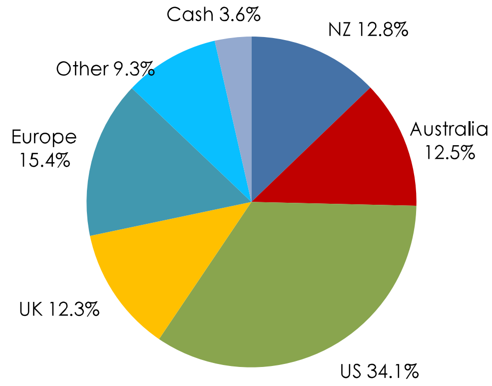
Note: The difference between dividends & interest earned, and what was paid out, is the exchange rates used.

Listed shares: Elevation Capital & Forsyth Barr

31 January 2015

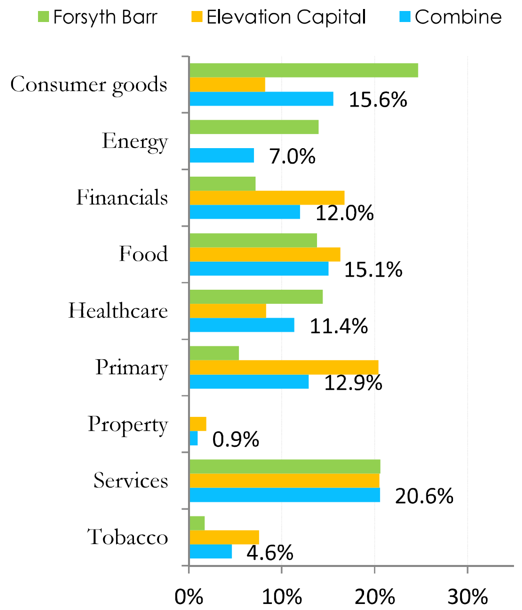
Geographic split

Country of listing	No. of holdings EC	FB	Total	Value of holdings EC	FB	Total	%
NZ	4	11	15	3,286,150	9,767,216	13,053,366	12.8%
Australia	11	6	17	8,188,053	4,575,444	12,763,497	12.5%
US	19	22	41	14,221,482	20,520,656	34,742,138	34.1%
UK	7	8	15	6,192,401	6,291,210	12,483,611	12.3%
Europe	7	11	18	6,351,112	9,308,614	15,659,726	15.4%
Other	10	2	12	7,554,335	1,950,907	9,505,243	9.3%
Shares	**58**	**60**	**118**	45,793,534	52,414,048	98,207,581	**96.4%**
Cash				3,536,459	104,737	3,641,196	3.6%
Total				**49,329,993**	**52,518,785**	**101,848,778**	**100.0%**

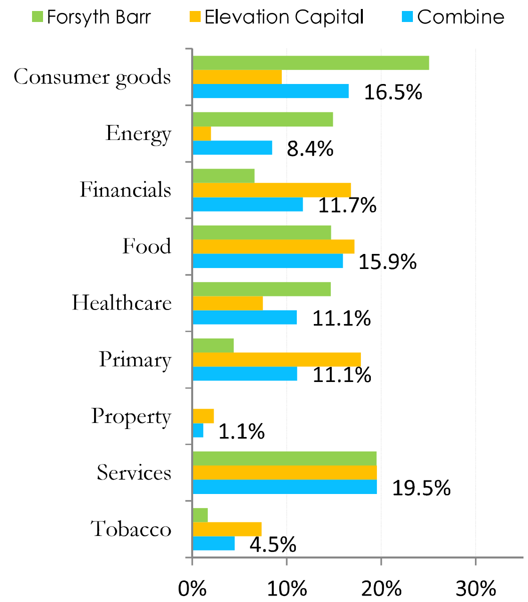


Industry split

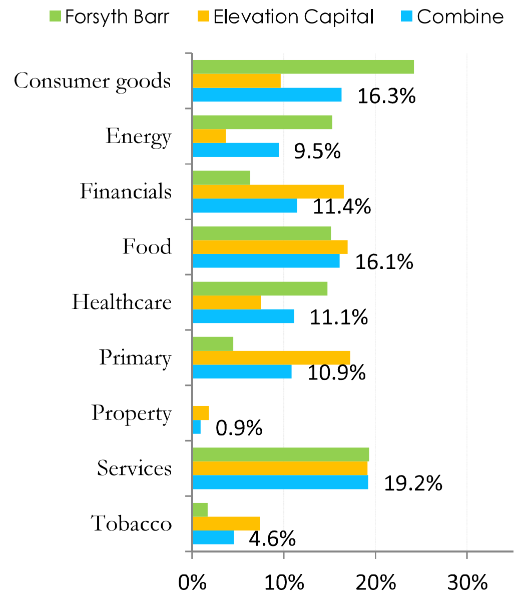
Start of the year **31 Mar 2014**



Start of the month **31 Dec 2014**



End of the month **31 Jan 2015**



Eastern & Central COMMUNITY TRUST

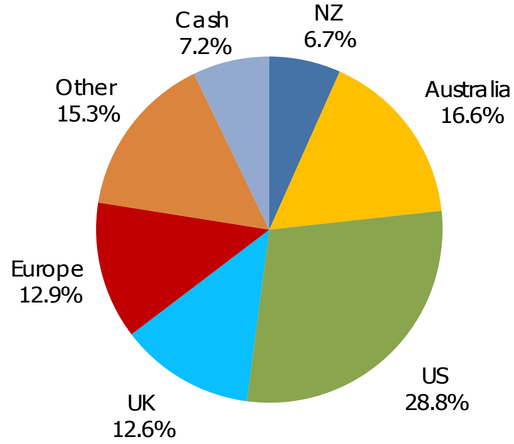
Listed shares: Elevation Capital - Christopher Swasbrook

MCA - actuaries & consultants -

31 January 2015

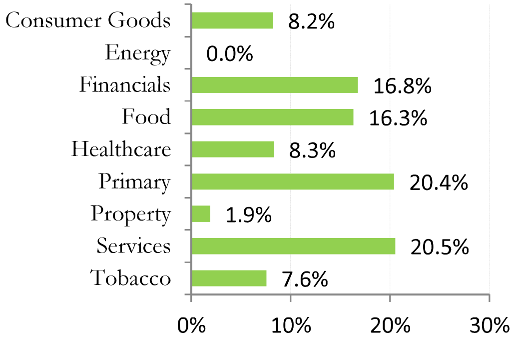
Geographic split

Country of listing	No. of holdings	$	%
NZ	4 shares	3,286,150	6.7%
Australia	11 shares	8,188,053	16.6%
US	19 shares	14,221,482	28.8%
UK	7 shares	6,192,401	12.6%
Europe	7 shares	6,351,112	12.9%
Other	10 shares	7,554,335	15.3%
Shares	58 shares	45,793,534	92.8%
Cash		3,536,459	7.2%
Total		**49,329,993**	**100.0%**

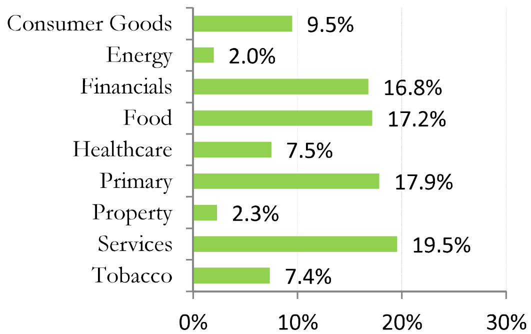


Industry split

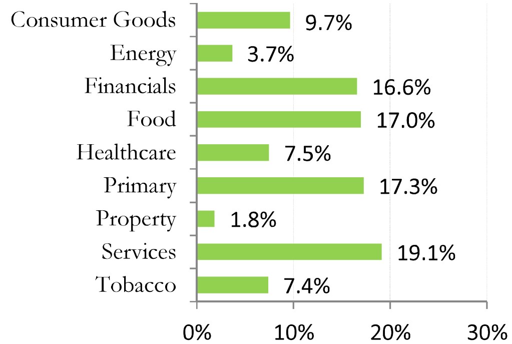
Start of the year **31 Mar 2014**



Start of the month **31 Dec 2014**



End of the month **31 Jan 2015**



Concentration risks:

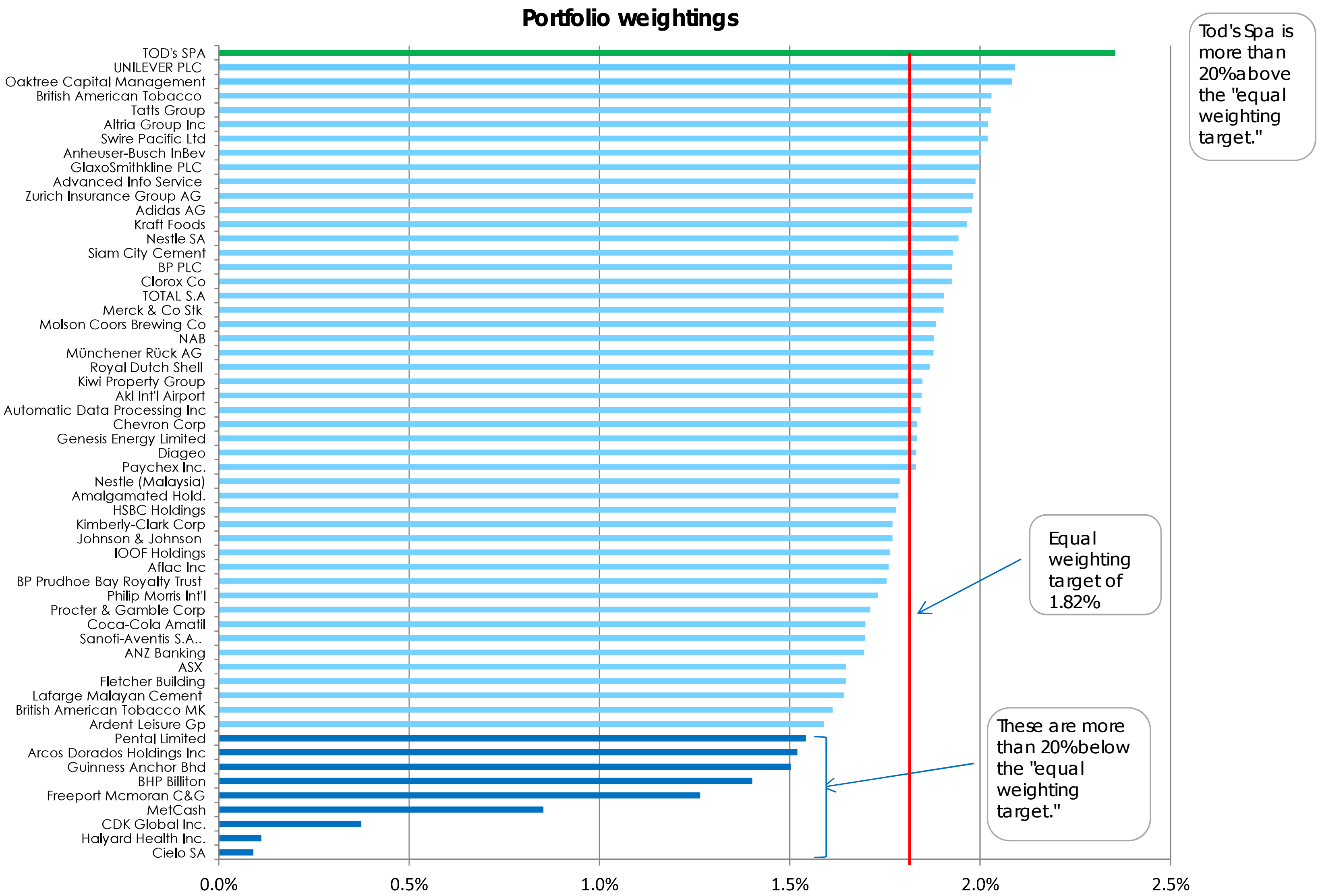
Shares that are 20% or more above the "equal weighting target" of $892,128

TOD's SPA

Shares that are 20% or less below the "equal weighting target" of $892,128

Halyard Health Inc. BHP Billiton MetCash Freeport Mcmoran C&G Arcos Dorados Holdings Inc Cielo SA Guinness Anchor Bhd CDK Global Inc. Pental Limited

31 January 2015



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

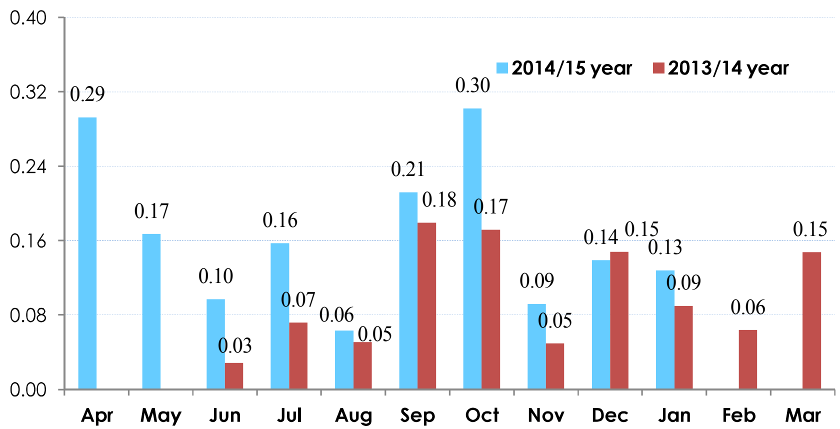
	During the year						
	Values			Gain/loss		Values	
	Start	Buys	Sells	Market	Currency	End	Net dividend
Overall shares	38,701,167	8,914,283	-7,556,086	2,122,929	3,611,241	45,793,534	1,650,547
Liquidity (cash)	3,725,233	1,000,000	-1,352,276	-45,069	208,572	3,536,459	45,345
Overall asset	**42,426,400**	**9,914,283**	**-8,908,362**	**2,077,859**	**3,819,813**	**49,329,993**	**1,695,892**

	During the month							Returns		
	Values			Gain/loss						
	Start	Buys	Sells	Market	Currency	End	Net dividend	Month	Ytd	Since Inception
NZ	3,402,378	-	-245,982	129,755	-	3,286,150	-	4.0%	18.4%	15.2%
AUST	7,941,889	-	-	78,986	167,177	8,188,053	17,376	3.3%	5.2%	0.6%
US	12,600,181	853,716	-	-228,114	995,699	14,221,482	66,431	6.4%	26.4%	16.6%
UK	5,661,019	43,258	-	245,344	242,780	6,192,401	11,845	8.8%	13.6%	8.6%
Europe	5,402,865	195,467	-	726,676	26,105	6,351,112	-	13.7%	15.0%	16.0%
Other	7,018,753	-	-	-5,357	540,940	7,554,335	32,348	8.1%	28.4%	6.5%
Overall shares	**42,027,085**	**1,092,441**	**-245,982**	**947,290**	**1,972,701**	**45,793,534**	**128,000**	**7.2%**	**19.0%**	**9.5%**
Liquidity (cash)	**4,272,909**	**-**	**-842,631**	**-2,800**	**108,982**	**3,536,459**	**4,896**	**2.9%**	**4.6%**	**4.2%**
Overall asset	**46,299,993**	**1,092,441**	**-1,088,614**	**944,490**	**2,081,682**	**49,329,993**	**132,897**	**6.8%**	**18.0%**	**9.9%**

Cash holdings

Currencies	Ex rate 31 Dec 14	Start values (local)	End values (local)	Ex rate 31 Jan 15	Currency gain/loss	End values (NZ$)
New Zealand dollars	1.0000	1,566,685	1,792,055	1.0000	0	1,792,055
Australian dollars	0.9547	360,140	360,170	0.9352	7,847	385,127
Swiss Franc	0.7755	208,219	208,219	0.6731	40,853	309,366
Euro	0.6447	206,375	82,899	0.6417	4,553	129,196
Pound Sterling	0.5008	11,122	182	0.4812	-542	378
US dollars	0.7800	1,340,063	668,164	0.7260	56,272	920,336
					108,982	3,536,459

Year-to-date income ($m)



Eastern & Central COMMUNITY TRUST

Listed shares: Elevation Capital - Christopher Swasbrook

MCA - actuaries & consultants -

31 January 2015

Code	Company	Industry	Average purchase cost[1]	During the month: Holdings		Price NZD		Values			Gain/loss		End Values	Net dividend	Returns		
				Start	End	Start	End	Start	Buys	Sells	Market movement	Currency			Month	Ytd	Since Inception
AIA	Akl Int'l Airport	Services	3.00	202,500	190,000	4.23	4.45	856,575	-	-54,945	43,870	-	845,500	-	5.3%	15.8%	27.0%
FBU	Fletcher Building	Primary	8.32	90,000	90,000	8.30	8.38	747,000	-	-	7,200	-	754,200	-	1.0%	-9.1%	4.3%
GNE	Genesis Energy Limited	Energy	1.78	383,711	375,000	2.17	2.24	832,653	-	-18,710	26,057	-	840,000	-	3.2%	56.2%	56.2%
GMT	Goodman Prop	Property	1.07	150,000	-	1.14	-	171,000	-	-172,328	1,328	-	-	-	0.8%	25.3%	8.6%
KPG	Kiwi Property Group	Property	1.20	641,250	641,250	1.24	1.32	795,150	-	-	51,300	-	846,450	-	6.5%	9.6%	9.6%
NZ subtotal in $000's		**4 shares**				**-**	**-**	**3,402**	**-**	**-246**	**130**	**-**	**3,286**	**-**	**4.0%**	**18.4%**	**15.2%**
AHD	Amalgamated Hold.	Services	10.04	65,000	65,000	11.23	12.57	729,901	-	-	70,811	16,653	817,365	-	12.0%	40.5%	19.4%
ANZ	ANZ Banking	Financials	33.02	22,000	22,000	33.61	35.29	739,517	-	-	20,971	15,816	776,305	-	5.0%	5.4%	9.0%
BHP	BHP Billiton	Primary	40.39	20,500	20,500	30.77	31.29	630,687	-	-	-2,362	13,068	641,392	-	1.7%	-18.2%	-11.7%
AAD	Ardent Leisure Gp	Services	2.03	245,000	245,000	3.06	2.97	749,385	-	-	-35,929	14,838	728,293	-	-2.8%	15.8%	31.9%
ASX	ASX	Financials	43.76	18,500	18,500	38.49	40.78	711,978	-	-	27,130	15,372	754,480	-	6.0%	8.5%	-2.4%
CCL	Coca-Cola Amatil	Food	14.09	75,000	75,000	9.76	10.37	732,206	-	-	29,854	15,849	777,908	-	6.2%	-7.2%	-16.8%
IFL	IOOF Holdings	Financials	9.60	80,000	80,000	9.32	10.09	745,823	-	-	45,252	16,453	807,528	-	8.3%	13.1%	5.5%
MTS	MetCash	Food	4.14	250,000	250,000	1.94	1.56	485,780	-	-	-103,795	8,306	390,291	17,376	-16.4%	-40.0%	-41.4%
NAB	NAB	Financials	35.79	22,575	22,575	35.20	38.10	794,553	-	-	48,004	17,523	860,080	-	8.2%	6.7%	9.1%
PTL	Pental Limited	Consumer Goods	0.04	1,466,666	1,466,666	0.55	0.48	806,578	-	-	-115,225	14,379	705,731	-	-12.5%	-15.2%	-15.2%
TTS	Tatts Group	Services	3.72	225,000	225,000	3.62	4.13	815,482	-	-	94,275	18,921	928,678	-	13.9%	38.9%	8.0%
AUST subtotal in $000's		**11 shares**			**ex-rate**	**0.9547**	**0.9352**	**7,942**	**-**	**-**	**79**	**167**	**8,188**	**17**	**3.3%**	**5.2%**	**0.6%**
MO	Altria Group Inc	Tobacco	44.51	12,650	12,650	63.89	73.14	808,192	-	-	52,503	64,532	925,227	7,702	15.5%	77.7%	40.0%
AFL	Aflac Inc	Financials	69.93	10,250	10,250	79.47	78.62	814,533	-	-	-64,395	55,744	805,882	-	-1.1%	16.4%	16.4%
ADP	Automatic Data Processing Inc	Services	86.77	7,425	7,425	107.84	113.68	800,714	-	-	-15,336	58,679	844,057	4,260	6.0%	46.6%	29.3%
ARCO	Arcos Dorados Holdings Inc	Food	11.06	91,000	91,000	6.91	7.64	628,874	-	-	18,152	48,636	695,661	7,458	11.9%	-36.4%	-36.6%
BPT	BP Prudhoe Bay Royalty Trust	Primary	114.13	7,500	7,500	86.15	107.09	646,099	-	-	100,200	56,903	803,202	19,441	27.7%	19.7%	4.2%
CDK	CDK Global Inc.	Services	35.09	2,750	2,750	51.81	62.20	142,480	-	-	16,748	11,832	171,061	-	20.1%	77.7%	77.7%
CLX	Clorox Co	Primary	104.97	6,000	6,000	135.37	146.98	812,206	-	-	8,693	61,002	881,901	-	8.6%	47.5%	25.5%
CVX	Chevron Corp	Energy	137.47	-	5,950	-	141.23	-	817,949	-	-42,858	65,203	840,294	-	2.7%	2.7%	2.7%
FCX	Freeport Mcmoran C&G	Primary	35.32	23,500	25,000	30.23	23.15	710,469	35,767	-	-207,729	40,350	578,857	-	-23.0%	-36.9%	-21.2%
HYH	Halyard Health Inc.	Healthcare	48.06	828	828	57.21	61.39	47,369	-	-	-53	3,516	50,832	-	7.3%	27.7%	27.7%
JNJ	Johnson & Johnson	Healthcare	106.79	5,875	5,875	135.09	137.93	793,628	-	-	-39,320	56,054	810,362	-	2.1%	25.2%	20.3%
KMB	Kimberly-Clark Corp	Services	121.56	5,450	5,450	150.46	148.71	819,998	-	-	-65,985	56,430	810,444	5,360	-0.5%	25.6%	18.5%
KRFT	Kraft Foods	Food	64.99	10,000	10,000	81.45	90.00	814,539	-	-	22,734	62,726	900,000	6,826	11.4%	44.5%	30.2%
MRK	Merck & Co Stk	Healthcare	59.94	10,500	10,500	73.91	83.03	776,107	-	-	35,023	60,687	871,818	5,532	13.1%	32.4%	25.3%
OAK	Oaktree Capital Management	Financials	64.86	12,500	12,500	66.08	76.31	826,014	-	-	61,863	65,979	953,857	-	15.5%	19.7%	18.5%
PAYX	Paychex Inc.	Services	47.23	13,450	13,450	60.08	62.34	808,086	-	-	-27,592	58,000	838,494	-	3.8%	29.8%	22.5%
TAP	Molson Coors Brewing Co	Food	61.48	8,250	8,250	96.03	104.59	792,262	-	-	10,895	59,684	862,841	-	8.9%	61.2%	41.5%
PM	Philip Morris Int'l	Tobacco	112.93	7,175	7,175	105.78	110.52	758,943	-	-	-21,472	55,535	793,006	9,853	5.8%	24.0%	3.5%
PG	Procter & Gamble Corp	Consumer Goods	97.42	6,750	6,750	118.47	116.10	799,667	-	-	-70,187	54,209	783,688	-	-2.0%	28.8%	13.8%
US subtotal in $000's		**19 shares**			**ex-rate**	**0.7800**	**0.7260**	**12,600**	**854**	**-**	**-228**	**996**	**14,221**	**66**	**6.4%**	**26.4%**	**16.6%**

Listed shares: Elevation Capital - Christopher Swasbrook

Eastern & Central COMMUNITY TRUST

MCA - actuaries & consultants -

31 January 2015

Code	Company	Industry	Average purchase cost[1]	During the month: Holdings		Price NZD		Values			Gain/loss		End Values	Net dividend	Returns		
				Start	End	Start	End	Start	Buys	Sells	Market movement	Currency			Month	Ytd	Since Inception
BP	BP PLC	Primary	8.91	100,000	100,000	8.17	8.82	817,374	-	-	30,255	34,437	882,066	-	7.9%	-1.1%	3.1%
BAT	British American Tobacco	Tobacco	68.01	11,920	11,920	69.70	77.97	830,770	-	-	62,367	36,286	929,423	-	11.9%	26.7%	12.7%
DGE	Diageo	Food	36.12	20,500	20,500	36.74	40.94	753,270	-	-	53,220	32,766	839,256	-	11.4%	15.3%	15.3%
GSK	GlaxoSmithkline PLC	Healthcare	32.06	30,000	30,000	27.55	30.49	826,460	-	-	51,959	36,169	914,589	11,845	12.2%	4.0%	-0.2%
RDSB	Royal Dutch Shell	Primary	42.94	18,500	19,550	44.71	43.73	827,189	43,258	-	-49,377	33,938	855,008	-	-1.8%	1.6%	6.1%
ULVR	UNILEVER PLC	Consumer Goods	51.53	15,725	15,725	52.38	60.89	823,698	-	-	96,407	37,382	957,486	-	16.2%	27.3%	13.8%
HSBA	HSBC Holdings	Financials	12.59	64,300	64,300	12.17	12.67	782,258	-	-	514	31,802	814,574	-	4.1%	13.0%	5.3%
UK subtotal in $ooo's		**7 shares**			**ex-rate**	**0.5008**	**0.4812**	**5,661**	**43**	**-**	**245**	**243**	**6,192**	**12**	**8.8%**	**13.6%**	**8.6%**
ABI	Anheuser-Busch InBev	Food	118.83	5,400	5,400	144.45	169.80	780,056	-	-	132,508	4,338	916,902	-	17.5%	42.5%	33.6%
ADS	Adidas AG	Consumer Goods	92.05	8,000	9,500	89.37	95.36	714,999	130,612	-	58,690	1,652	905,953	-	7.7%	5.5%	5.5%
DAI	Daimler AG	Services	78.00	7,500	7,500	106.98	125.43	802,350	-	-	133,899	4,450	940,700	-	17.2%	18.1%	35.3%
MUV	Münchener Rück AG	Financials	236.91	3,100	3,100	257.10	277.41	796,999	-	-	58,903	4,068	859,970	-	7.9%	14.1%	13.0%
SAN	Sanofi-Aventis S.A..	Healthcare	136.74	6,045	6,045	116.49	128.59	704,172	-	-	69,480	3,677	777,329	-	10.4%	9.2%	-2.7%
SA	TOTAL S.A	Primary	64.02	11,350	12,375	66.57	70.50	755,522	64,855	-	49,215	2,820	872,412	-	6.6%	-4.5%	7.7%
TOD	TOD's SPA	Consume goods	127.82	7,600	7,600	111.68	141.82	848,767	-	-	223,980	5,099	1,077,846	-	27.0%	7.9%	7.9%
Europe subtotal in $ooo's		**7 shares**			**ex-rate**	**0.6447**	**0.6417**	**5,403**	**195**	**-**	**727**	**26**	**6,351**	**-**	**13.7%**	**15.0%**	**16.0%**
ADVANC.TH	Advanced Info Service	Services	10.42	87,500	87,500	9.78	10.40	855,737	-	-	-13,603	68,286	910,420	-	6.4%	36.2%	-1.4%
ROTH.MK	British American Tobacco MK	Tobacco	24.06	29,500	29,500	23.57	25.04	695,339	-	-	18,606	24,744	738,689	-	6.2%	22.7%	6.7%
LMC.MK	Lafarge Malayan Cement	Primary	4.02	200,000	200,000	3.64	3.76	728,246	-	-	-1,761	25,483	751,968	6,161	4.1%	21.5%	-1.2%
NESZ:MK	Nestle (Malaysia)	Food	26.85	30,200	30,200	25.13	27.13	758,793	-	-	33,001	27,442	819,236	-	8.0%	19.3%	2.2%
NESN	Nestle SA	Food	83.77	8,500	8,500	94.07	104.67	799,632	-	-	-27,403	117,489	889,718	-	11.3%	23.8%	15.8%
19.HK	Swire Pacific Ltd	Services	14.70	50,000	50,000	16.70	18.50	835,035	-	-	25,630	64,175	924,840	-	10.8%	44.6%	18.3%
ZURN	Zurich Insurance Group AG	Financials	332.54	2,000	2,000	401.96	453.76	803,920	-	-	-16,249	119,839	907,511	-	12.9%	38.0%	25.7%
CIEL3	Cielo SA	Financials	16.15	2,000	2,000	20.10	20.54	40,207	-	-	-1,611	2,483	41,079	-	2.2%	17.3%	23.1%
GAB.MK	Guinness Anchor Bhd	Food	6.24	150,000	150,000	4.49	4.58	673,243	-	-	-10,511	24,739	687,470	26,187	6.1%	-2.8%	-16.5%
SCCC:TB	Siam City Cement	Primary	16.08	49,000	49,000	16.91	18.03	828,599	-	-	-11,455	66,260	883,404	-	6.6%	51.1%	-1.5%
Other subtotal in $ooo's		**10 shares**						**7,019**	**-**	**-**	**-5**	**541**	**7,554**	**32**	**8.1%**	**28.4%**	**6.5%**
Overall shares in $ooo's		**58 shares**		**5,118**	**4,958**			**42,027**	**1,092**	**-246**	**947**	**1,973**	**45,794**	**128**	**7.2%**	**19.0%**	**9.5%**
Liquidity in $ooo's								**4,273**	**-**	**-843**	**-3**	**109**	**3,536**	**5**	**2.9%**	**4.6%**	**4.2%**
Overall asset in $ooo's								**46,300**	**1,092**	**-1,089**	**944**	**2,082**	**49,330**	**133**	**6.8%**	**18.0%**	**9.9%**

Note: [1] "Average purchase cost" figures are since inception.

[2] Cielo SA received bonus shares in April 2014 of $658.

[3] Auckland Airport had a reduction in shares held during April, for which the trust received a capital repayment of $77,175.

[4] Mighty River Power shares were sold out during October 2014.

[5] Pental Limited shares were consolidated in a ratio of 1:15 during November 2014.

[6] Halyard Health and CDK Global shares were received as a spin-off from Kimberley - Clark Corp and Automatic Data Processing Inc. respectively.

[7] Convertible shares in Kiwi Income Property (KIPGC) were converted to Kiwi Property Group (KPG) in a ratio of 1:0.855 in December 2014.

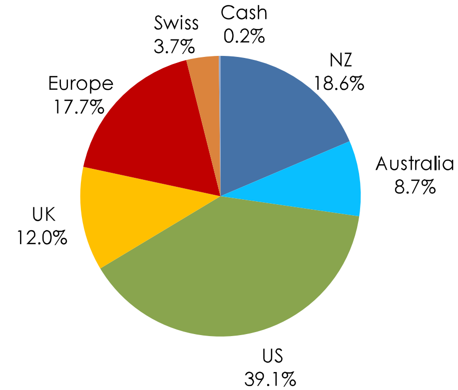
Listed shares: Forsyth Barr - Richard Burton

MCA - actuaries & consultants -

31 January 2015

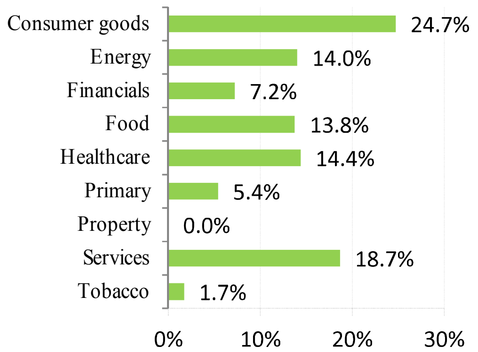
Geographic split

Country of listing	No. of holdings	$	%
NZ	11 shares	9,767,216	18.6%
Australia	6 shares	4,575,444	8.7%
US	22 shares	20,520,656	39.1%
UK	8 shares	6,291,210	12.0%
Europe	11 shares	9,308,614	17.7%
Swiss	2 shares	1,950,907	3.7%
Shares	60 shares	52,414,048	99.8%
Cash		104,737	0.2%
Total		**52,518,785**	**100.0%**

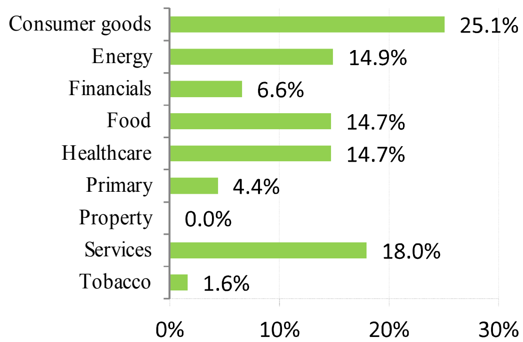


Industry split

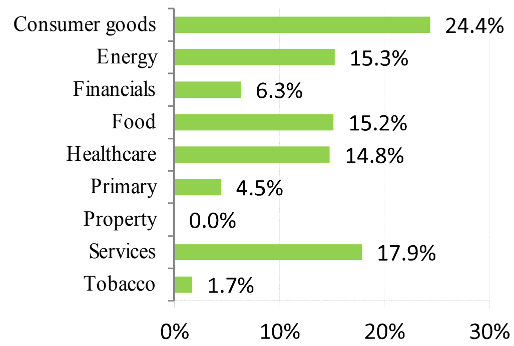
Start of the year **31 Mar 2014**



Start of the month **31 Dec 2014**



End of the month **31 Jan 2015**



Concentration risks:

Shares that are 20% or more above the "equal weighting target" of $918,633

Northeast Utilities   Home Depot   Altria Group Inc   Dr Pepper Snapple   Fresenius SE & Co

Shares that are 20% or less below the "equal weighting target" of $918,633

Skellerup   BHP Billiton   Mattel Aktie   Halyard Health Inc   Indivior Plc   Hermes International

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Listed shares: Forsyth Barr - Richard Burton

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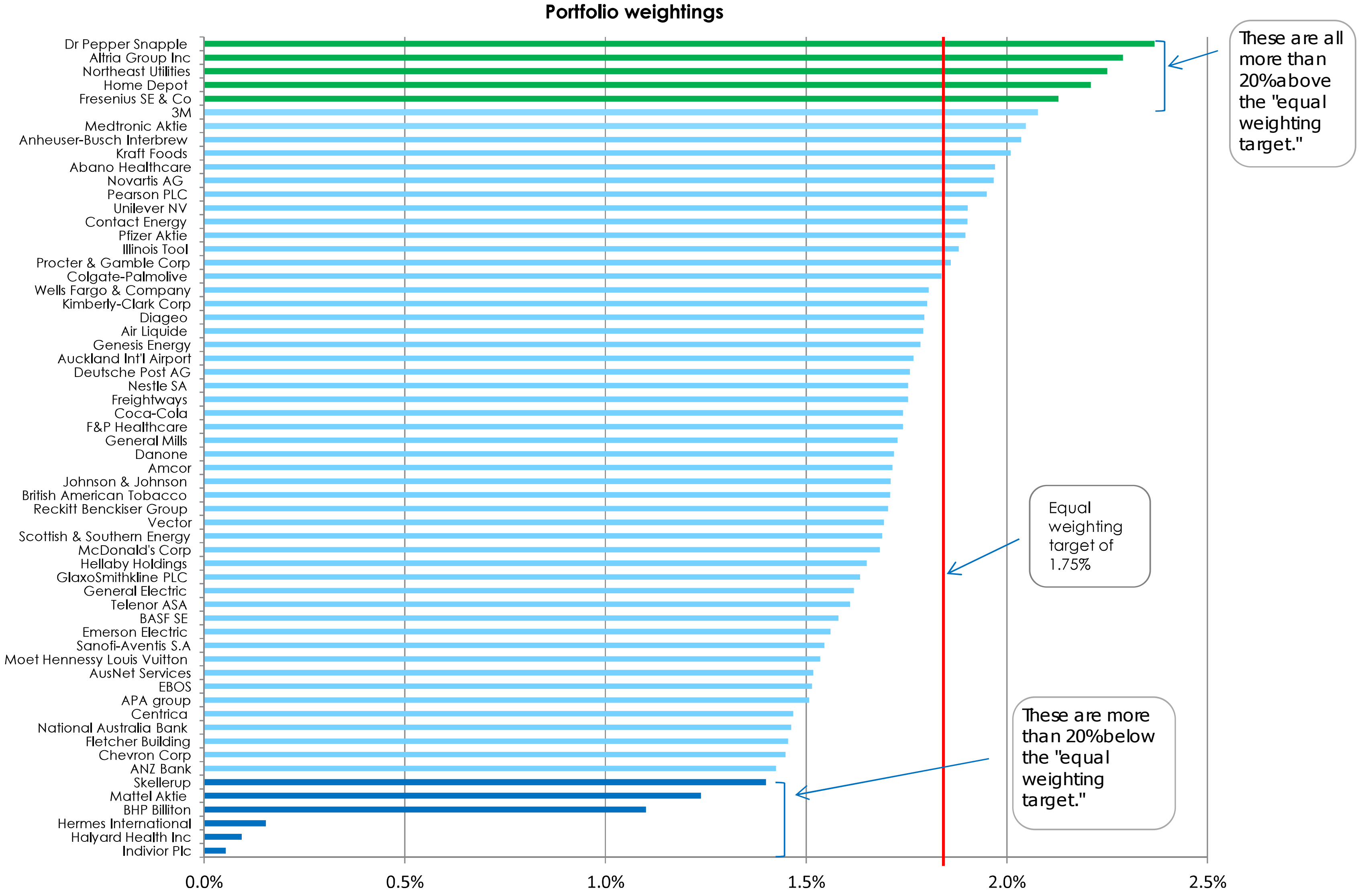
31 January 2015



Manager: Forsyth Barr - Richard Burton

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

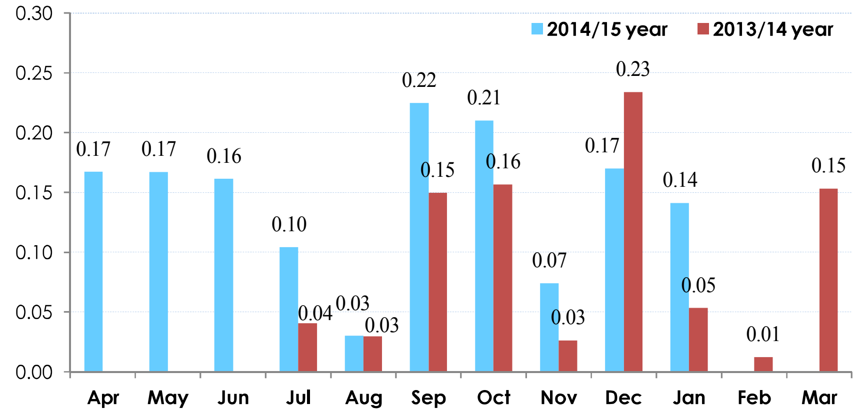
	During the year						
	Values			Gain/loss		Values	
	Start	Buys	Sells	Market	Currency	End	Net dividend
Overall shares	42,357,876	3,125,404	-1,585,350	4,764,174	3,751,944	52,414,048	1,450,144
Liquidity (cash)	612,483	1,000,000	-1,506,766	-14,392	13,412	104,737	6,582
Overall asset	**42,970,359**	**4,125,404**	**-3,092,116**	**4,749,783**	**3,765,355**	**52,518,785**	**1,456,726**

	During the month							Returns		
	Values			Gain/loss		Values				
	Start	Buys	Sells	Market	Currency	End	Net dividend	Month	Ytd	Since Inception
NZ	9,517,756	-	-	249,459	-	9,767,216	12,152	2.8%	17.7%	18.7%
AUST	4,132,258	213,769	-	136,096	93,321	4,575,444	-	5.4%	11.1%	10.2%
US	19,662,293	-	-	-564,156	1,422,519	20,520,656	44,567	4.6%	31.7%	16.9%
UK	5,642,572	-	-	402,587	246,051	6,291,210	11,097	11.7%	20.7%	8.0%
Europe	8,126,725	92,891	-	1,016,979	72,020	9,308,614	73,417	14.3%	19.2%	11.9%
Swiss	1,743,453	-	-	-50,168	257,622	1,950,907	-	11.9%	32.7%	21.0%
Overall shares	48,825,057	306,660	-	1,190,798	2,091,533	52,414,048	141,233	7.0%	23.4%	14.9%
Liquidity (cash)	366,026	-	-261,293	-19	24	104,737	569	0.2%	-0.2%	0.8%
Overall asset	**49,191,082**	**306,660**	**-261,293**	**1,190,779**	**2,091,556**	**52,518,785**	**141,802**	**7.0%**	**23.3%**	**15.0%**

Cash holdings

Currencies	Ex rate 31 Dec 14	Start values (local)	End values (local)	Ex rate 31 Jan 15	Currency gain/loss	End values (NZ$)
New Zealand dollars	1.0000	328,970	95,857	1.0000	-	95,857
Australian dollars	0.9547	22,188	1,046	0.9352	-78	1,118
Swiss Franc	0.7755	-	-	0.6731	-	-
Euro	0.6447	-	-1	0.6417	-435	-2
Pound Sterling	0.5008	-	-	0.4812	-	-
US dollars	0.7800	10,774	5,636	0.7260	537	7,763
					24	**104,737**

Year-to-date income ($m)



Listed shares: Forsyth Barr - Richard Burton

Eastern & Central COMMUNITY TRUST

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31 January 2015

Code	Company	Industry	Average purchase cost[1]	During the month											Returns		
				Holdings		Price NZD		Values			Gain/loss		End Values	Net dividend			
				Start	End	Start	End	Start	Buys	Sells	Market movement	Currency			Month	Ytd	Since Inception
ABA	Abano Healthcare	Services	5.82	121,522	121,522	7.75	8.50	941,796	-	-	91,142	-	1,032,937	12,152	11.0%	29.2%	30.8%
AIA	Auckland Int'l Airport	Services	2.97	208,143	208,143	4.23	4.45	880,445	-	-	45,791	-	926,236	-	5.2%	15.7%	29.6%
FBU	Fletcher Building	Services	9.05	91,000	91,000	8.30	8.38	755,300	-	-	7,280	-	762,580	-	1.0%	-9.4%	-4.0%
CEN	Contact Energy	Energy	5.07	141,000	141,000	6.38	7.07	899,580	-	-	97,290	-	996,870	-	10.8%	36.4%	27.8%
EBO	EBOS	Consumer goods	8.73	84,000	84,000	9.85	9.45	827,400	-	-	-33,600	-	793,800	-	-4.1%	-4.3%	10.1%
FPH	F&P Healthcare	Healthcare	3.34	147,000	147,000	6.25	6.21	918,750	-	-	-5,880	-	912,870	-	-0.6%	50.8%	50.3%
FRE	Freightways	Services	4.34	154,000	154,000	5.80	5.97	893,200	-	-	26,180	-	919,380	-	2.9%	29.4%	24.4%
GNE	Genesis Energy	Energy	1.61	417,680	417,680	2.17	2.24	906,366	-	-	29,238	-	935,603	-	3.2%	42.7%	42.7%
HBY	Hellaby Holdings	Financials	2.78	273,000	273,000	3.15	3.17	859,950	-	-	5,460	-	865,410	-	0.6%	10.2%	14.1%
SKL	Skellerup	Consumer goods	1.36	560,000	560,000	1.42	1.31	795,200	-	-	-61,600	-	733,600	-	-7.7%	-23.4%	5.3%
VCT	Vector	Energy	2.78	300,993	300,993	2.79	2.95	839,770	-	-	48,159	-	887,929	-	5.7%	28.6%	7.8%
NZ subtotal in $000's		**11 shares**				**-**	**-**	**9,518**	**-**	**-**	**249**	**-**	**9,767**	**12**	**2.8%**	**17.7%**	**18.7%**
AMC	Amcor	Services	11.35	65,800	65,800	14.23	13.67	936,012	-	-	-55,141	18,320	899,192	-	-3.9%	26.0%	23.4%
ANZ	ANZ Bank	Financials	33.68	21,169	21,169	33.61	35.29	711,584	-	-	20,179	15,219	746,981	-	5.0%	5.5%	8.6%
APA	APA group	Energy	7.13	60,065	91,000	7.80	8.68	468,742	213,769	-	91,410	16,199	790,120	-	18.7%	36.5%	17.7%
BHP	BHP Billiton	Primary	38.94	18,431	18,431	30.77	31.29	567,033	-	-	-2,124	11,749	576,659	-	1.7%	-18.2%	-9.5%
NAB	National Australia Bank	Financials	35.31	20,125	20,125	35.20	38.10	708,322	-	-	42,794	15,621	766,738	-	8.2%	6.7%	10.2%
AST	AusNet Services	Energy	1.39	531,564	531,564	1.39	1.50	740,565	-	-	38,977	16,213	795,754	-	7.5%	13.4%	10.5%
AUST subtotal in $000's		**6 shares**			**ex-rate**	**0.9547**	**0.9352**	**4,132**	**214**	**-**	**136**	**93**	**4,575**	**-**	**5.4%**	**11.1%**	**10.2%**
MMM	3M	Consumer goods	143.15	4,868	4,868	212.63	223.55	1,035,078	-	-	-22,095	75,276	1,088,260	-	5.1%	46.7%	33.3%
MO	Altria Group Inc	Consumer goods	45.70	16,401	16,401	63.89	73.14	1,047,839	-	-	68,072	83,667	1,199,577	9,985	15.5%	77.8%	35.6%
CVX	Chevron Corp	Energy	153.71	5,378	5,378	145.02	141.23	779,929	-	-	-72,952	52,536	759,513	-	-2.6%	5.8%	-3.3%
KO	Coca-Cola	Food	51.02	16,100	16,100	54.82	56.71	882,667	-	-	-32,821	63,153	912,999	-	3.4%	29.5%	7.6%
CL	Colgate-Palmolive	Consumer goods	74.33	10,353	10,353	89.80	93.00	929,706	-	-	-33,450	66,602	962,858	-	3.6%	27.6%	16.8%
DPS	Dr Pepper Snapple	Food	59.61	11,659	11,659	93.21	106.43	1,086,748	-	-	67,927	86,221	1,240,897	5,597	14.7%	75.1%	43.8%
EMR	Emerson Electric	Consumer goods	72.96	10,430	10,430	79.97	78.43	834,052	-	-	-72,614	56,584	818,022	-	-1.9%	3.7%	7.3%

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Listed shares: Forsyth Barr - Richard Burton

MCA - actuaries & consultants -

31 January 2015

Code	Company	Industry	Average purchase cost[1]	During the month									End Values	Net dividend	Returns		
				Holdings		Price NZD		Values			Gain/loss						
				Start	End	Start	End	Start	Buys	Sells	Market movement	Currency			Month	Ytd	Since Inception
GE	General Electric	Consumer goods	30.42	25,788	25,788	32.78	32.91	845,438	-	-	-56,027	59,178	848,589	6,944	1.2%	13.4%	8.4%
GIS	General Mills	Food	62.69	12,530	12,530	69.68	72.29	873,140	-	-	-30,042	62,652	905,750	-	3.7%	24.5%	11.4%
HD	Home Depot	Services	99.46	8,050	8,050	133.69	143.83	1,076,189	-	-	1,548	80,088	1,157,825	-	7.6%	60.4%	26.2%
HYH	Halyard Health Inc	Healthcare	48.06	793	793	57.21	61.39	45,367	-	-	-51	3,367	48,683	-	7.3%	27.7%	27.7%
ITW	Illinois Tool	Consumer goods	89.90	7,684	7,684	123.17	128.22	946,473	-	-	-29,661	68,454	985,267	4,363	4.6%	40.2%	26.0%
JNJ	Johnson & Johnson	Healthcare	110.29	6,500	6,500	135.09	137.93	878,056	-	-	-43,503	62,017	896,570	-	2.1%	24.9%	18.4%
KMB	Kimberly-Clark Corp	Consumer goods	124.85	6,351	6,351	150.46	148.71	955,561	-	-	-76,893	65,759	944,427	6,246	-0.5%	25.5%	16.3%
KRFT	Kraft Foods	Food	69.90	11,704	11,704	81.45	90.00	953,337	-	-	26,640	73,383	1,053,360	7,537	11.3%	44.6%	19.6%
MAT	Mattel Aktie	Consumer goods	53.80	17,500	17,500	39.40	37.05	689,499	-	-	-85,935	44,852	648,416	-	-6.0%	-17.4%	-21.4%
MCD	McDonald's Corp	Services	124.55	6,930	6,930	120.84	127.33	837,429	-	-	-16,082	61,035	882,382	-	5.4%	16.0%	3.0%
MDT	Medtronic Aktie	Healthcare	67.69	10,906	10,906	93.69	98.35	1,021,734	-	-	-23,621	74,460	1,072,574	3,894	5.4%	43.2%	28.0%
NU	Northeast Utilities	Energy	53.46	15,400	15,400	70.09	76.56	1,079,451	-	-	17,968	81,551	1,178,970	-	9.2%	50.9%	27.9%
PFE	Pfizer Aktie	Healthcare	36.23	23,100	23,100	40.23	43.04	929,390	-	-	-3,850	68,778	994,318	-	7.0%	20.1%	13.3%
PG	Procter & Gamble Corp	Consumer goods	100.14	8,400	8,400	118.47	116.10	995,141	-	-	-87,344	67,460	975,256	-	-2.0%	28.3%	11.1%
WFC	Wells Fargo & Company	Financials	55.60	13,230	13,230	71.06	71.52	940,069	-	-	(59,369)	65,446	946,145	-	0.6%	27.9%	31.5%
US subtotal in $000's		**22 shares**			**ex-rate**	**0.7800**	**0.7260**	**19,662**	**-**	**-**	**-564**	**1,423**	**20,521**	**45**	**4.6%**	**31.7%**	**16.9%**
BATS	British American Tobacco	Tobacco	68.67	11,490	11,490	69.70	77.97	800,801	-	-	60,117	34,977	895,895	-	11.9%	26.7%	9.8%
CNA	Centrica	Energy	7.14	126,000	126,000	5.56	6.11	700,769	-	-	38,498	30,035	769,302	-	9.8%	2.0%	-7.3%
DGE	Diageo	Food	37.78	22,974	22,974	36.74	40.94	844,177	-	-	59,643	36,720	940,540	-	11.4%	17.0%	6.1%
GSK	GlaxoSmithkline PLC	Healthcare	32.34	28,105	28,105	27.55	30.49	774,256	-	-	48,677	33,885	856,817	11,097	12.2%	3.5%	-1.7%
INDV	Indivior Plc	Healthcare	3.03	7,636	7,636	2.82	3.62	21,517	-	-	5,017	1,078	27,611	-	28.3%	28.3%	19.5%
PSON	Pearson PLC	Services	23.16	36,400	36,400	23.34	28.08	849,757	-	-	132,298	39,899	1,021,953	-	20.3%	46.7%	14.7%
RB	Reckitt Benckiser Group	Consumer goods	92.20	7,636	7,636	103.54	117.00	790,667	-	-	67,859	34,880	893,406	-	13.0%	30.8%	19.3%
SSE	Scottish & Southern Energy	Energy	29.99	26,488	26,488	32.49	33.44	860,629	-	-	-9,521	34,578	885,686	-	2.9%	20.0%	12.2%
UK subtotal in $000's		**8 shares**			**ex-rate**	**0.5008**	**0.4812**	**5,643**	**-**	**-**	**403**	**246**	**6,291**	**11**	**11.7%**	**20.7%**	**8.0%**
AI	Air Liquide	Primary	150.28	5,375	5,375	158.29	174.71	850,812	-	-	83,789	4,443	939,044	-	10.4%	24.2%	11.6%
ABI	Anheuser-Busch Interbrew	Food	119.30	6,286	6,286	144.45	169.80	908,043	-	-	154,249	5,049	1,067,342	-	17.5%	41.9%	26.7%
BAS	BASF SE	Primary	121.09	6,686	6,686	108.39	123.90	724,706	-	-	99,766	3,919	828,391	-	14.3%	-0.5%	1.4%
BN	Danone	Food	93.20	9,625	9,625	83.85	93.60	807,085	-	-	89,577	4,262	900,923	-	11.6%	15.7%	0.0%
DPW	Deutsche Post AG	Services	33.35	20,557	20,557	41.95	44.84	862,361	-	-	55,004	4,361	921,725	-	6.9%	5.6%	22.4%
FRE	Fresenius SE & Co	Healthcare	52.76	14,100	14,100	66.95	79.11	943,937	-	-	166,217	5,277	1,115,431	-	18.2%	32.6%	27.9%
HML	Hermes International	Consumer goods	540.06	-	172	-	467.47	-	92,891	-	-14,934	2,447	80,404	-	-13.4%	-13.4%	-13.4%

Listed shares: Forsyth Barr - Richard Burton

31 January 2015

Code	Company	Industry	Average purchase cost[1]	During the month												Returns		
				Holdings		Price NZD		Values			Gain/loss		End Values	Net dividend				
				Start	End	Start	End	Start	Buys	Sells	Market movement	Currency				Month	Ytd	Since Inception
MC	Moet Hennessy Louis Vuitton	Consumer goods	218.45	3,542	3,542	204.82	227.15	725,486	-	-	76,900	2,175	804,561	73,417		22.1%	19.8%	9.5%
SAN	Sanofi-Aventis S.A	Healthcare	133.86	6,300	6,300	116.49	128.59	733,876	-	-	72,410	3,833	810,119	-		10.4%	8.6%	-2.5%
TEL	Telenor ASA	Services	26.31	28,462	28,462	25.99	29.64	739,704	-	-	72,262	31,537	843,503	-		14.0%	20.9%	10.3%
UNA	Unilever NV	Consumer goods	51.02	16,604	16,604	50.03	60.06	830,715	-	-	161,739	4,718	997,172	-		20.0%	28.9%	12.0%
Europe subtotal in $000's		**11 shares**			**ex-rate**	**0.6447**	**0.6417**	**8,127**	**93**	**-**	**1,017**	**72**	**9,309**	**73**		**14.3%**	**19.2%**	**11.9%**
NESN	Nestle SA	Food	84.97	8,785	8,785	94.07	104.67	826,444	-	-	-28,322	121,429	919,550	-		11.3%	23.5%	14.8%
NOVN	Novartis AG	Healthcare	96.86	7,700	7,700	119.09	133.94	917,009	-	-	-21,845	136,193	1,031,357	-		12.5%	41.9%	39.9%
Swiss subtotal in $000's		**2 shares**			**ex-rate**	**0.7755**	**0.6731**	**1,743**	**-**	**-**	**-50**	**258**	**1,951**	**-**		**11.9%**	**32.7%**	**21.0%**
Overall shares in $000's		**60 shares**						**48,825**	**307**	**-**	**1,191**	**2,092**	**52,414**	**141**		**7.0%**	**23.4%**	**14.9%**
Liquidity in $000's								**366**	**-**	**-261**	**-0**	**0**	**105**	**1**		**0.2%**	**-0.2%**	**0.8%**
Overall asset in $000's								**49,191**	**307**	**-261**	**1,191**	**2,092**	**52,519**	**142**		**7.0%**	**23.3%**	**15.0%**

Note: [1] "Average purchase cost" figures are for since inception period.

[2] Air Liquide received 462 shares from a 1:10 bonus issue in June 2014.

[3] Fresenius received 9,400 shares from a 3:1 share split in August 2014.

[4] Indivior shares were received as 1:1 spin-off from Reckitt Benckiser in December 2014.

[5] Hermes International shares were received as 2:41 spinoff from LVMH in January 2015.

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.

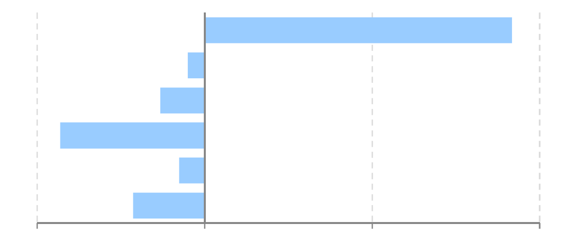
Market indices:	
Total shares	MSCI world net div (50% hedged)
Elevation Capital / Forsyth Barr listed shares	MSCI world net div (currency unhedged)
Shares	MSCI world net div
Currency hedging	50% of currency movement
NZ bonds - self-managed	ANZ Corp A grade index
OS bonds hedged - Pimco	Citigroup WGBI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

Environment and market statistics

90-day bank bill rates

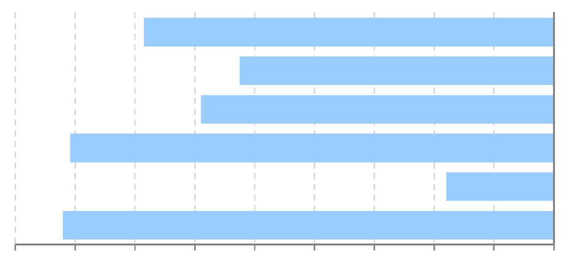
	Start of year 1 Apr 2014	Start of period 1 Jan 2015	End of period 31 Jan 2015	Movement Month	Movement Year-to-date
NZ	3.1%	3.7%	3.7%	(0.0%)	0.6%
US	0.1%	0.0%	0.0%	(0.0%)	(0.0%)
UK	0.4%	0.4%	0.3%	(0.0%)	(0.1%)
Euro	0.3%	0.1%	0.1%	(0.0%)	(0.3%)
Japan	0.1%	0.0%	0.0%	0.0%	(0.0%)
Australia	2.7%	2.8%	2.5%	(0.2%)	(0.1%)

Year-to-date (change)



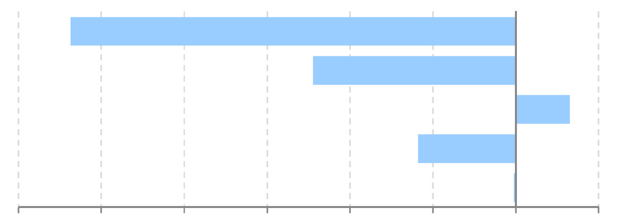
10 year government bond yields

	Start of year 1 Apr 2014	Start of period 1 Jan 2015	End of period 31 Jan 2015	Movement Month	Movement Year-to-date
NZ	4.6%	3.7%	3.2%	(0.5%)	(1.4%)
US	2.7%	2.2%	1.7%	(0.5%)	(1.1%)
UK	2.7%	1.9%	1.5%	(0.3%)	(1.2%)
Euro	2.9%	1.5%	1.3%	(0.2%)	(1.6%)
Japan	0.6%	0.3%	0.3%	(0.0%)	(0.4%)
Australia	4.1%	2.8%	2.4%	(0.4%)	(1.6%)



Exchange rates

	Start of year 1 Apr 2014	Start of period 1 Jan 2015	End of period 31 Jan 2015	Movement Month	Movement Year-to-date
US	0.8664	0.7829	0.7268	(7.2%)	(16.1%)
UK	0.5206	0.5033	0.4824	(4.2%)	(7.3%)
Euro	0.6299	0.6440	0.6421	(0.3%)	1.9%
Yen	89.15	93.56	86.00	(8.1%)	(3.5%)
Australia	0.9364	0.9569	0.9358	(2.2%)	(0.1%)



Environment and market statistics

Sharemarket returns (local currency)

	Month	Year-to-date	Last 12 months	Last 3 years (p.a.)	Last 5 years (p.a.)
US (S&P 500)	(3.1%)	6.6%	11.9%	15.0%	13.2%
Japan (Nikkei 225)	1.3%	19.2%	18.5%	26.2%	11.6%
UK (FTSE 100)	2.8%	2.3%	3.7%	5.9%	5.4%
Germany (DAX)	9.1%	11.9%	14.9%	18.3%	13.8%
France (CAC 40)	7.8%	4.8%	10.5%	11.8%	4.2%
Australia (ASX 200)	3.3%	6.8%	12.5%	14.5%	8.8%
NZ (NZX 50)	3.2%	11.8%	17.8%	20.3%	12.7%
MSCI Net div 50%hedged	2.7%	16.3%	17.9%	18.3%	12.3%

Note:

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

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Report type:	Financial Information Papers
Recommendation:	Information only
Agenda item no:	9
Subject:	Draft Budget 2015/16
Responsible for the report:	General Manager

Purpose of report:	To provide the Executive with a draft budget for discussion before presentation and ratification at the March Trust meeting.

The draft budget for 2015/16 is attached for consideration and discussion, key points to note:

1. Income from Forsyth Barr and Elevation Capital has been set at 3.75% of the assets at the end of January 2014. I have discussed this with Michael who has suggested that as the portfolio increase in value the income does not increase at the same ratio, it in fact decreases as a percentage of the portfolio.
2. Other Income – Michael and I believe these to be reasonable assumptions given the performance YTD and where we see the current Bond returns in the future.
3. Overall Realised income is forecast at 5% higher that the forecast for 2014/15 and at a similar level to what we will achieve at the end of this year.
4. Admin Expenses – Forecast to remain at a similar level to last year. Staff remuneration at $475 is the same as last year, however this included the overlap of the replacement for Bev Watkins.
5. Trustee Expenses with a slight increase.
6. Fee expenses reduced from what was budgeted last year. This is due to a projected reduction in activity in the portfolios. I have budgeted for a slight increase in Fees for the Fund Managers whether this increase occurs or not. I have also increased the Donations Expenses back to a level which was budgeted for in 2013/14, $30k. This is mainly for Pool Reports.
7. CAPEX is similar to last year. I have reduced the contingency by $5k, but have included the possible replacement of four ipads for Trustees who are appointed (or reappointed) With technology changing so quickly we need to consider a replacement policy for ipads. I would also like to investigate the option of a teleconference option for the coming year, I have include $10k as a budget for this.
8. Donations – I have stripped out the Science Project and increased the “Education Initiatives” by $50k. This will include possible new initiatives such as underwriting, capacity building etc.

Overall we are forecasting a similar loss to the previous budget of $231k

Jonathan Bell, General Manager

EASTERN & CENTRAL COMMUNITY TRUST

YTD and Proposed Cash Flow Budget for the Year Ending 31 March 2016 - J Bell 18 Feb2015

	2014/15 Act Budget	9 months Actual YTD	Comments	2015/16 Budget	2015/16 Comments
INCOME					
REALISED INVESTMENT INCOME					**BASED ON ASSETS $162m (31st Jan 2015)**
New Zealand					
Shares FBarr Interest	2,500	6,938		7,000	
Shares FBarr Dividend	1,800,000	1,399,081	Slightly above budget	1,968,750	3.75% on $52.5m. Michael notes that as markets go up the % value of dividends
Shares FBarr Disposal gain/loss	0	0			decreases hence 3.75% versus 4.0%
Shares ECap Interest	2,500	40,900		7,000	
Shares ECap Dividend	1,800,000	1,623,322	Slightly above budget	1,848,750	3.75% on $49.3m (Same comment as above)
Shares ECap Disposal gain/loss	0				Few sales/purchases expected
Hedging gain/loss	0	-129,445			Not budgeted for
Bonds Self Interest	2,400,000	2,074,302	Slightly above budget	2,400,000	6% on $40m (expected return)
Bonds Self Disposal gain/loss	0	0			
Cash Self Realised Income	320,000	312,760	Slightly above budget	336,000	4.2% on $8m
Sundry Income	150	170		170	HB Power Dividend
Overseas					
Shares SSGA Dividend	0	7,823			
Bonds Pimco Interest	720,000	752,124	Some income carried over from	850,000	6% on $15m (reasonable assumption according to Michael)
Bonds Pimco Disposal gain/loss	0		last year		
Total Realised Income	**7,045,150**	**6,087,975**		**7,417,670**	Up on previous year's budget
UNREALISED INVESTMENT INCOME					
New Zealand					
Shares FBarr change in Currency	0	0		0	
Shares FBarr change in Value	0	0		0	
Shares ECap change in Currency	0	0		0	
Shares ECap change in Value	0	0		0	Trustees' decision
Property NZ change in Value	0	0		0	is not to budget
Hedging change in Value	0	0		0	for any
Bonds Self change in Interest	0	0		0	unrealised Income
Bonds Self change in Value	0	0		0	
		0			
Overseas	0				
Shares SSGA change in Hedging	0	0		0	
Shares SSGA change in Currency	0	0		0	
Shares SSGA change in Value	0	0		0	
Bonds Vngd change in Currency	0	0		0	
Bonds Vngd change in Value	0	0		0	
Bonds Pimco change in Value	0	0		0	
Property Australia change in Currency	0	0		0	
Property Australia change in Value	0	0		0	
Total Unrealised Income	**0**	**0**		**0**	
TOTAL INVESTMENT INCOME	**7,045,150**	**6,087,975**		**7,417,670**	This equates to a 4.58% return on Investments as at Jan 2015
EXPENSES					
Administration Expenses					
Advertising - Statutory	12,000	13,411	Over budget	17,000	Slight increase
Promotion	72,000	18,403	Under Budget	70,000	Same as last year
Rent & Services	115,000	86,290	On Budget	115,000	Same as last year
Telephone	12,000	10,741	Over Budget	14,000	Slight increase to align with this years actual costs
Postage	4,000	2,355	On budget	4,000	Same as last year
KiwiSaver net Contributions	18,000	12,904	Under budget	18,000	Same as last year
Printing & Stationery	16,000	7,924	On budget	14,000	Slight decrease
Insurance	8,000	8,707	Over budget	9,000	Just life and contents
General Expenses	4,000	2,033	Tightly controlled	4,000	Adequate from past

	2014/15 Actual Budget	9 months Actual YTD	Comments	2015/16 Budget	2015/16 Comments
Computer Services	80,000	69,726	On Budget	60,000	From TPK Forecast Budget & New computer provider
Staff Remuneration	475,000	343,261	On Budget	475,000	Same as last year
Staff Training	5,000	884	Under budget	8,000	Focus on some staff development for this year
Staff Travel	20,000	14,920	On budget	35,000	More activity expected
ACC Levies	2,000	-544	as per budget	1,500	Should be adequate
Total Administration Expenses	**843,000**	**591,015**		**844,500**	**$1.5k increase**
Trustee Expenses					
Trustees Remuneration	175,000	125,181	Under budget	175,000	Stay the same as budgeted last year
Trustee Meeting Expenses	55,000	42,314	Over budget, extra meetings	58,000	Slight increase to align more with actual costs this year
Trustee Training	10,000	1,731		10,000	Budget same as last year budget
Trustees Liability insurance	9,300	9,537	Completed	10,000	Accommodates a 5% increase
Total Trustees Expenses	**249,300**	**178,763**		**253,000**	**$3.7k increase**
Fee Expenses					
Affiliation Fees	7,500	6,325	PNZ increased sub	7,500	Philanthropy NZ & EMA increases
Conference Fees	5,000	0		20,000	CT's Cnf in Canterbury (Travel $8k, Accom $8k, $4k contingency, meals taxis etc)
Donation Expenses	10,000	18,389		30,000	Pool reports etc
Professional Expenses	90,000	63,264		85,000	Mainly MCA
Audit Fees	18,000	14,400	No expense yet -March accrual	20,000	Small rate increase
Brokerage Fees	12,000	19,407	Over Budget	25,000	Minimal expected
Custodian Fees	36,000	31,244	Over Budget	41,000	Public Trust & BNP Paribas
Fund Manager Fees	440,000	268,817	Currently $65k under budget YTD	370,000	4% increase on YTD extraploated, prudent to budget an increase
Total Fee Expenses	**618,500**	**421,846**		**598,500**	**$20k decrease**
TOTAL EXPENSES	**1,710,800**	**1,191,624**		**1,696,000**	**Budgeted expenses $14.8k (0.9%) less than budgeted expenses for last year.**
LESS CAPITAL EXPENDITURE					
Equipment	20,000	0		20,000	Contingency
Computer System	10,000	11,090		10,000	Update 4 iPads, 1 computer & 2 screens
Other	2,000	0		2,000	
TOTAL CAPITAL EXPENDITURE	**32,000**	11,090		**32,000**	**Same as last year**
SURPLUS INCOME OVER EXPENDITURE	**5,302,350**	4,885,261	Well ahead of YTD budget	**5,689,670**	**Surplus before donations**
COMMUNITY DONATIONS					
Special Donations	2,800,000	1,840,800	Under budget	3,000,000	SIPO states 4% of $143.03m capital base
Standard Donations	1,780,000	1,201,740	Under budget	1,910,000	which is approximately $5.72m.
Discretionary Donations	20,000	5,000	Under budget	20,000	
Education Initiatives	150,000	0	None	200,000	Capacity Building & other initiatives
Science Project	0	0		40,000	
Sports Trusts	320,000	320,000	Set at $320,000	320,000	
Summer Reading Programme	230,000	230,000	Actual at $230,000	230,000	
TOTAL DONATIONS APPROVED	**5,300,000**	**3,597,540**	Under budget?	**5,720,000**	
Special Programmes Reserve Fund	300,000		$100k used YTD	300,000	How do we treat carry over from previous year?
Less Donations Written Back	-100,000	-108,194	Will end over budget	- 100,000	An unknown, but available for distribution
Total Community Donations	**5,500,000**	**3,489,346**	Will be under budget	**5,920,000**	
SURPLUS INCOME FOR YEAR	**-197,650**	**1,395,915**		**-230,330**	Expectation that unrealised growth will eventuate to cover increase of capital base by an additional $3.6m.

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Report type:	Executive Decisions
Recommendation:	The Executive approves/declines the recommendations of the Donations Assessors as outlined below
Agenda item no:	10
Subject:	Discretionary Donations
Responsible for the report:	General Manager & Donations Assessors

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

Approvals

Cancer Society of NZ Wairarapa Centre Inc – requested $25,000 – recommended donation of $3,000 for Relay for Life 2015 promotion.

Piping and Dancing Assn of NZ Inc – Hawke's Bay – requested $2,800 – recommended donation of $2,000 for printing costs for 2015 programme.

Poverty Bay Cricket Association – requested $4,000 – recommended donation of $4,000 for a pitch roller.

Akitio Sheep Dog Trial Club Incorporated – requested $2,415 – recommended donation of $2,000 for a new oven and refrigerator.

Declines

No declines

Jonathan Bell
General Manager
February 20th 2015

Donation Evaluation

Organisation Name: Cancer Society of NZ Wairarapa Centre Inc.
Geographic Location: Masterton
Request No: 24162 **Applicant No:** 186
Sector: Health
Application Type: Discretionary
Tax Status: Tax-exempt (charity) **Legal Status:** Incorporated society

Principal Officers/Personnel/Trustees

Contact: Jeanine Gribbin
Address: P O Box 121
MASTERTON 5840

Chairperson: Susan McWilliam
Secretary:
Treasurer: George Murdoch
Secretary/Treasurer:

Aim of Organisation
To minimise the impact and incidence of cancer in our community.

# of Staff:	3	**# of Volunteers:**	100
# of Members:	12	**Established:**	17/12/1984
# of Beneficiaries:	500		

Current Application

Project Description
Towards logistics and operations and publicity for Relay for Life.

Project Costs

Description	Total Amount	Other Funding	Requested	Recommended
Events - Relay for Life - logistics and publicity	$65,349	$65,000	$25,000	$3,000.00

Project Income

Other Funder	Amount	Decision Date	Confirmed
Sponsorship	$15,000		
Trust House	$15,000		Y
Other funders	$30,000		
Registrations	$5,000		

Shortfall Raising Description
Contribution from teams fundraising/sponsorship.

Previous Funding

Year	Application type	Amount	Project
2010		$0	a second dragon boat
2013		$3,000	Relay for Life event

Financial Position

Financial Year:

Revenue	
Income	$388,594
Total	$388,594
Expenses	
Expenses	$253,530
Depreciation	$5,475
Total	$259,005
Net Income:	$129,589

Term Assets	
Term assets	$18,530
Total	$18,530
Current Assets	
Current assets	$140,266
Investments	$457,139
Total	$597,405
Term Liabilities	
	$
Total	$0
Current Liabilities	
Current liabilities	$18,543
Total	$18,543
Net Assets:	$597,392

Tagged Funds

Description	Amount
Towards annual operating costs	$200,000

Notes

This organisation is in a very healthy financial state

Accounts prepared by: Reviewed by Suitably Qualified Person

Visits

Visit Date	Purpose of Visit

Comments and Analysis

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

Project Background

Relay for Life is an inspiring community event that gives everyone a chance to celebrate survivorship, remember loved ones lost and fight back by raising funds and awareness of the Cancer Society and cancer risk. Relay is our premier community engagement education and fundraising event.

Project Management

This organisation is a branch of the NZ Cancer Society and appears to be operating very successfully.

General Comments

This request is for promotion costs for the Relay for Life which is happening prior to ECCT's March meeting. It is being considered under discretion because it wa not received in time to make the January meeting. Last year's relay only made $2,700 in profit. Support is being recommended because of the nature of the work they do in the community and in recognition that this is one of their major fundraising and awareness raising opportunities.

Recommended Amount

$3,000 for Relay for Life 2015 promotion

Donation Evaluation

Organisation Name: Piping and Dancing Assn of NZ Inc - Hawke's Bay
Geographic Location: Hastings
Request No: 24175
Applicant No: 6474
Sector: Arts and Culture
Application Type: Discretionary
Tax Status: Tax-exempt (charity)
Legal Status: Incorporated society

Principal Officers/Personnel/Trustees

Contact: Rob Mortensen
Address: 6 Te Mata Peak Road
HAVELOCK NORTH 4130

Chairperson: Rob Mortensen
Secretary: Jillian McIntosh
Treasurer: Tamara Cavaney
Secretary/Treasurer:

Aim of Organisation

To host and organise the Easter Highland Games at Lindisfarne College and to promote piping and dancing in Hawke's Bay.

# of Staff:		**# of Volunteers:**	30
# of Members:	2000	**Established:**	03/12/1900
# of Beneficiaries:	3000		

Current Application

Project Description

We would be grateful for assistance towards the cost of printing the programme for the 2015 Easter Highland Games. The preferred supplier is Mr Print.

Project Costs

Description	Total Amount	Other Funding	Requested	Recommended
Programmes - Easter Highland Games 2015 programme	$30,000	$27,200	$2,800	$2,000.00

Project Income

Other Funder	Amount	Decision Date	Confirmed
Own funds	$16,052		Y
The Lion Foundation	$4,250	15/03/2015	
First Light Community Foundation	$3,415	28/02/2015	
Endeavour Community Foundation	$1,546	28/02/2015	
Infinity Foundation	$1,937	15/03/2015	

Shortfall Raising Description
Entry fees, fundraising, gate sales, raffles.

Previous Funding

Year	Application type	Amount	Project
2011		$2,000	programme printing and sound system hire
2012		$2,000	printing costs for the programme and sound system hireage
2013		$2,000	printing and hire costs
2014		$2,000	printing costs - 2014 Easter Highland Games

Financial Position

Financial Year: 30/06/2014			
Revenue		**Term Assets**	
Income	$30,903	Fixed assets	$19,549
Total	$30,903	**Total**	$19,549
Expenses		**Current Assets**	
Expenses	$29,918	Current assets	$67,168
Total	$29,918	**Total**	$67,168
		Term Liabilities	
			$
		Total	$0
		Current Liabilities	
			$
		Total	$0
Net Income:	$985	**Net Assets:**	$86,717

Tagged Funds

Description	Amount
Reserve Fund held for future development	**$**64,535

Notes

A small organisation that is in a sound financial position

Accounts prepared by: Reviewed by Suitably Qualified Person

Comments and Analysis

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

Project Background

The Easter Highland Games is a very popular annual event which brings many visitors from all over the country to Hastings for a long weekend. This is great for local business. We are fortunate to have a superb venue at Lindisfarne College which can provide facilities come rain, hail or shine. The public enjoy the entertainment and the competition is a great family weekend.

Project Management

This organisation's main activity is the running of the annual Highland Games. They appear to be well managed.

General Comments

This organisation traditionally makes an application for consideration at the January meeting but this year's competition is the NZ Championship and had to be approved by the national body. This process took longer than expected .The Games are a significant event based at Lindisfarne College in Hastings. The event attracts up to 2000 visitors each year. The games provide Highland pipers and dancers with the opportunity of sharing and competing, as well as an influx of visitors to the region. Continued support is recommended.

Recommended Amount

$2,000 for printing costs for 2015 programme

Donation Evaluation

Organisation Name: Poverty Bay Cricket Association
Geographic Location: Gisborne
Request No: 24208 **Applicant No:** 3480
Sector: Sport - Adult
Application Type: Discretionary
Tax Status: Tax-exempt (amateur sport) **Legal Status:** Incorporated society

Principal Officers/Personnel/Trustees

Contact: Kim Shaw
Address: P O Box 595
GISBORNE 4040

Chairperson: Phil Evans
Secretary:
Treasurer:
Secretary/Treasurer: Kim Shaw

Aim of Organisation

To provide and administer cricket to the Gisborne community and to build a sustainable based in all areas of the game at all levels in the community.

# of Staff:	2	**# of Volunteers:**	10
# of Members:	260	**Established:**	12/10/1994
# of Beneficiaries:	350		

Current Application

Project Description

To assist in the purchase of a 4 tonne roller. This machine is the recommended size as stipulated by NEC to achieve playing surface quality.

Project Costs

Description	Total Amount	Other Funding	Requested	Recommended
Equipment - pitch roller	$7,000	$3,000	$4,000	$4,000.00

Project Income

Other Funder	Amount	Decision Date	Confirmed
Own funds	$3,000		Y

Shortfall Raising Description

Previous Funding

Year	Application type	Amount	Project
2010		$15,000	completing stage 2 of the irrigation
2012		$30,000	upgrading the cricket pavilion

Financial Position

Financial Year: 31/07/2014

Revenue	
Income	$320,833
Total	$320,833
Expenses	
Expenses	$301,757
Depreciation	$12,261
Total	$314,018
Net Income:	$6,815

Term Assets	
Deposits	$184,022
Fixed assets	$48,705
Total	$232,727
Current Assets	
Current assets	$86,000
Total	$86,000
Term Liabilities	
	$
Total	$0
Current Liabilities	
Current liabilities	$46,013
Total	$46,013
Net Assets:	$272,714

Tagged Funds

Description	Amount
Indoor centre training lanes, etc	$182,000

Notes

This organisation appears to be in reasonable financial health

Accounts prepared by: Reviewed by Suitably Qualified Person

Comments and Analysis

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

Project Background

Our aim is to provide our cricketers with the best playing conditions and in the past we have been forced to share a roller at considerable expense. We introduced our junior cricketers to turf pitches at an early age (10), which allows them to become familiar with a "real" turf block. As we also host age group tournaments. It is becoming almost a requirement to have such a piece of equipment.

Project Management

This organisation is responsible for running cricket in the Gisborne district.

General Comments

They have been looking for a suitable roller for several years because their old one is not up to NZ Cricket's standards. This roller is being offered at a discount rate for a quick and easy sale, hence this application being condsidered under discretion. If they don't commit shortly the roller will go on the open market. Support at a standard level is recommended.

Recommended Amount

$4,000 for a pitch roller

Subject to Conditions

- Receipt of a written resolution approving the submission of the application, signed by two office bearers.

Donation Evaluation

Organisation Name: Akitio Sheep Dog Trial Club Incorporated
Geographic Location: Dannevirke/Woodville
Request No: 24161 **Applicant No:** 7653
Sector: Sport - Adult
Application Type: Discretionary
Tax Status: Tax-exempt (amateur sport) **Legal Status:** Incorporated society

Principal Officers/Personnel/Trustees

Contact:	Christine Thompson	**Chairperson:**	Rod Searle
Address:	9816 Route 52	**Secretary:**	
	R D 3	**Treasurer:**	
	PONGAROA 4992	**Secretary/Treasurer:**	Gowan Greene

Aim of Organisation

To provide community organisation based around our rural farming community linked to a national sporting association and to share knowledge with the younger generation.

# of Staff:		**# of Volunteers:**	24
# of Members:	24	**Established:**	27/05/1964
# of Beneficiaries:	250		

Current Application

Project Description

Upgrade appliances. New oven and refrigerator.

Project Costs

Description	Total Amount	Other Funding	Requested	Recommended
Equipment - oven and refrigerator	$2,415	$0	$2,415	$2,000.00

Project Income

Other Funder	Amount	Decision Date	Confirmed
	$		

Shortfall Raising Description
We will fundraise.

Previous Funding

Year	Application type	Amount	Project
		$	

Financial Position

Financial Year: 31/08/2014

Revenue	
Income	$13,324
Total	$13,324
Expenses	
Expenses	$14,071
Total	$14,071
Net Income:	$-747

Term Assets	
Term assets	$10,532
Total	$10,532
Current Assets	
Current assets	$8,421
Total	$8,421
Term Liabilities	
	$
Total	$0
Current Liabilities	
	$
Total	$0
Net Assets:	$18,953

Tagged Funds

Description	**Amount**
	$

Notes

A complete set of accounts has been requested. It is probable that they actually made an $800 profit last year.

Accounts prepared by: Prepared by Organisation

Comments and Analysis

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

Project Background

The Akitio Sheep Dog Club has been running for 100 years providing first hand knowledge for the younger generation of the farming community, encouraging skills which are the fundamentals of New Zealand's primary industry.

Project Management

This is a small club in an isolated rural area. It's main activity is the annual trials.

General Comments

This application is being considered under discretion because they would like to have the kitchen upgraded before the trials at the end of March. Their accounts appeared not to be complete and there appears to be an accounting issue with the profit and loss. A full set has been requested just to clarify the situation. It's a question of which bits of paper they sent in rather than spurious accounts. Support is recommend at half the standard level, which leaves them an opportunity to use some of their own funds as well.

Recommended Amount

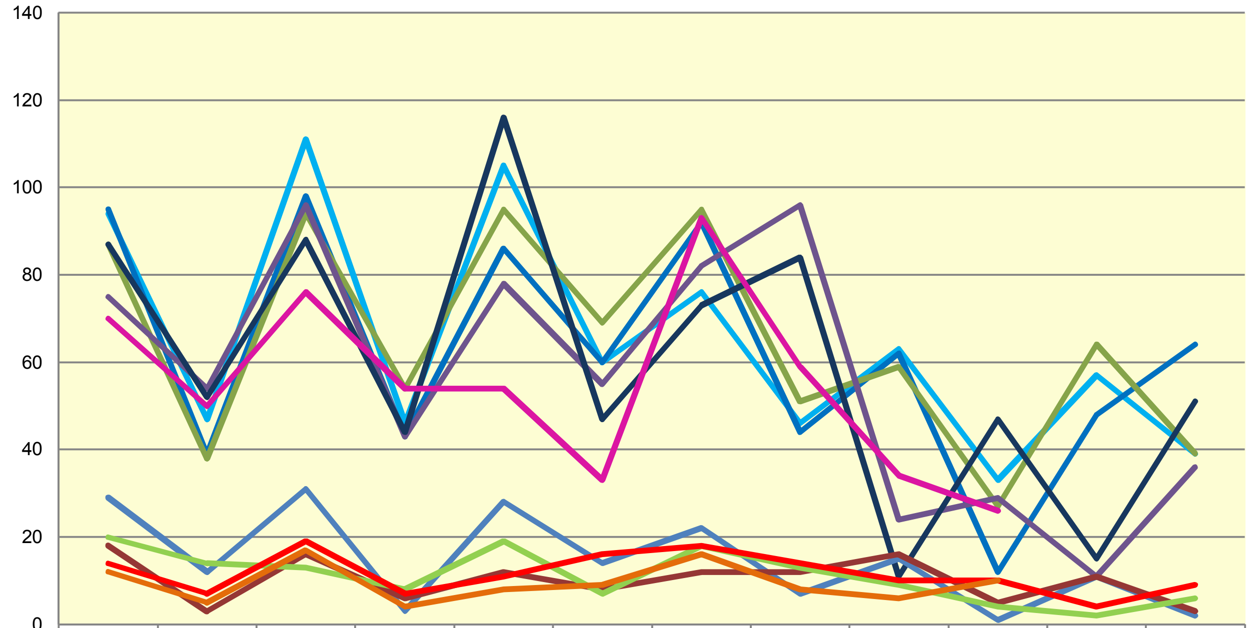
$2,000 for a new oven and refrigerator

Subject to Conditions

- Receipt of a copy of your latest Annual Accounts

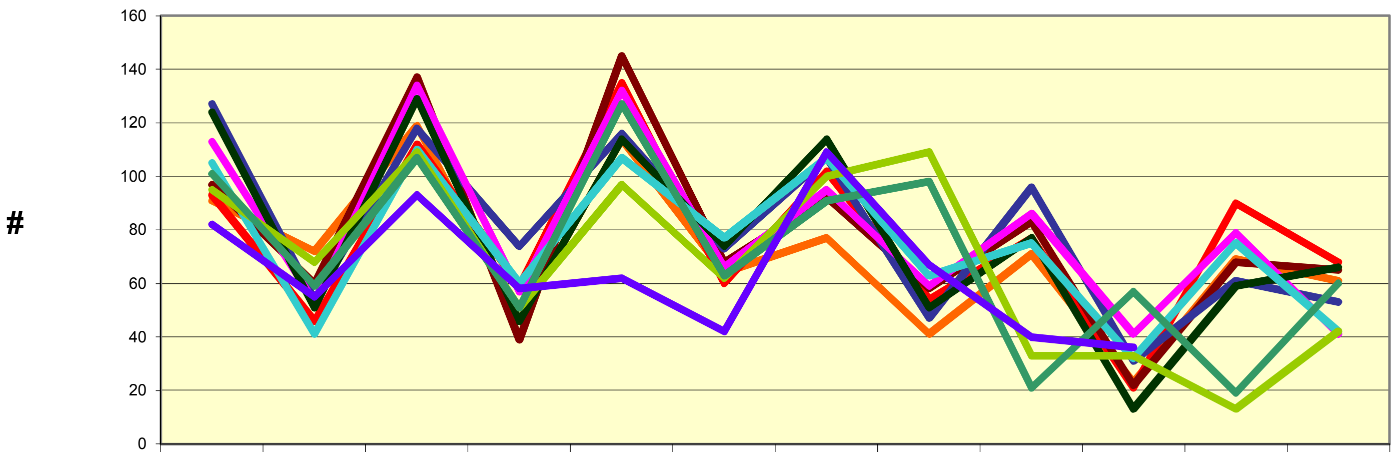
ANALYSIS OF DONATIONS RECEIVED AS AT 31 JANUARY 2015

VOLUME OF DONATIONS RECEIVED



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Standard 09/10	94	47	111	46	105	60	76	46	63	33	57	39
Standard 10/11	95	39	98	43	86	60	92	44	62	12	48	64
Standard 11/12	87	38	94	54	95	69	95	51	59	27	64	39
Standard 12/13	75	54	96	43	78	55	82	96	24	29	11	36
Standard 13/14	87	52	88	44	116	47	73	84	11	47	15	51
Standard 14/15	70	50	76	54	54	33	93	59	34	26		
Special 10/11	29	12	31	3	28	14	22	7	15	1	11	2
Special 11/12	18	3	16	6	12	8	12	12	16	5	11	3
Special 12/13	20	14	13	8	19	7	18	13	9	4	2	6
Special 13/14	14	7	19	7	11	16	18	14	10	10	4	9
Special 14/15	12	5	17	4	8	9	16	8	6	10		

VOLUME OF TOTAL DONATIONS RECEIVED



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
05/06	91	72	119	46	114	64	77	41	71	23	69	61
06/07	93	46	112	59	135	60	102	54	77	21	90	68
07/08	97	60	137	39	145	68	92	58	83	22	68	65
08/09	127	54	118	74	116	73	107	47	96	31	61	53
09/10	113	53	134	57	132	66	95	59	86	41	79	41
10/11	124	51	129	46	114	74	114	51	77	13	59	66
11/12	105	41	110	60	107	77	107	63	75	32	75	42
12/13	95	68	109	51	97	62	100	109	33	33	13	42
13/14	101	59	107	51	127	63	91	98	21	57	19	60
14/15	82	55	93	58	62	42	109	67	40	36		

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

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

The hedging position for February 13th is attached for your information.

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

Wednesday, 04 February 2015

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
CB131764	NZD	8,500,000.00	EUR	5,268,385.00	0.619810	09-Feb-15	0.646152	346,394.29	0.646510
CB131765	NZD	5,800,000.00	GBP	2,823,208.00	0.486760	09-Feb-15	0.488626	22,143.45	0.488850
CB131766	NZD	17,500,000.00	USD	13,613,250.00	0.777900	09-Feb-15	0.740350	-887,247.00	0.740720
							Total	**-518,709.26**	

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.

E&CCT HEDGING CONTRACTS OPENING REPORT

as at 5th February 2015 **Rollover Date:** 9th February 2015

CURRENCY Country	Amount Hedged $NZ	Value of Overseas Exposure in $NZ **31/12/2014**	Hedged % ***Target %***	Trade Date	Deal Rate	Revaluation Rate **4/02/2015**	Rollover Date	**Balance $NZ**
Thailand Malaysia USA **USD** HongKong Brazil	**18,750,000**	1,684,336 2,855,621 32,262,474 835,035 40,207	49.82% ***50%***	7/11/2014	0.77790	0.74035	7/02/2014	**-950,986.02**
All European Countries (incl Swiss) **Euro**	**8,500,000**	16,876,595	50.37% ***50%***	7/11/2014	0.61981	0.64615	7/02/2014	**346,523.73**
UK **Pound**	**5,800,000**	11,303,591	51.31% ***50%***	7/11/2014	0.48676	0.48863	7/02/2014	**22,149.46**
Japan **Yen**	**0**	0	0% ***50%***	n/a	n/a	83.44	n/a	**0.00**
Pimco Bonds (Hedged)	**0**	15,136,662	0.00% ***0%***	n/a	n/a	0.92363	n/a	**0.00**
Australia **AUD**	**0**	12,074,147	0.00% ***0%***	n/a	0.92363	0.92212	n/a	**0.00**

TOTAL (Incl Bonds)	**$33,050,000**	**$93,068,668**	
EQUITIES ONLY	**$33,050,000**	**$77,932,006**	**42.41%**
Excluding Australia	**$33,050,000**	**$65,857,859**	**50.18%**

Current Balance **-$582,312.84**

Hedging to be increased when exposure falls 5% below the target exposure.
General Manager is empowered to adjust the hedging levels at rollover to the defined tactical targets as set by the Trustees.
USD used to hedge the currencies of USA, Thailand, Malaysia, Hong Kong & Brazil (other).
Euro used to hedge the Euro and the Swiss franc.

J Bell
5/02/2015

J:\Andy Arcus\Hedging Report

5th February 2015

Eastern & Central
COMMUNITY
TRUST

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102-104 Russell Street South
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Hastings 4156
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Fax 06 878-9550
Email enquiry@ecct.org.nz
Website www.ecct.org.nz

Ms Margaret Skilton
Director, Currency Overlay
Bank of New Zealand
Level 6, Deloitte Centre, 80 Queen Street
AUCKLAND 1010

Dear Margaret,

RE: Instructions currency hedges.

Please be notified that the Trustees of the Eastern & Central Community Trust Inc have resolved that they wish to purchase forward contracts on the USD, Euro and Pound for the period maturing on **Monday 9th February 2015**, to coincide with the existing contracts.

INSTRUCTION

a) Purchase a forward contract on the **USD** for **NZ$18,750,000** with a maturity date of **11th May 2015**.
b) Purchase a forward contract on the **Euro** for **NZ$8,500,000** with a maturity date of **11th May 2015**.
c) Purchase a forward contract on the **Pound** for **NZ$5,800,000** with a maturity date of **11th May 2015**.

I would be pleased if you would confirm and send the details of the above contracts once completed. Please send e-mail confirmation to jonathan@ecct.org.nz

Yours sincerely,

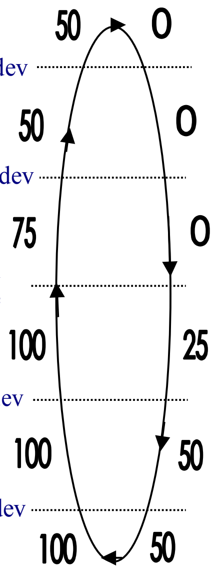
Authorised Signature (General Manager) Date: 5/2/15

Authorised Signature (Donations Manager) Date: 5/2/15.

Eastern & Central COMMUNITY TRUST | **MCA** - actuaries & consultants -

Eastern & Central Community Trust

Equities currency hedging contract position at 13 February 2015



	US$	UK£	Euro	Yen	A$
Current position	$\boxed{74.3}$ ↓	$\boxed{48.3}$ ↓	$\boxed{65.1}$ ↑	$\boxed{88.5}$ ↓	$\boxed{96.0}$ ↑
+2 std dev	85.8	51.7	65.0	94.3	95.0
+1 std dev	74.6	45.1	59.3	82.6	89.1
Long term average	63.4	38.4	53.5	70.9	83.2
-1 std dev	52.1	31.8	47.7	59.2	77.3
-2 std dev	40.9	25.1	42.0	47.5	71.4

	US$	UK£	Euro	Yen	A$
Current exchange rate	0.7426	0.4826	0.6513	88.45	0.9596
Policy position (from the above graph)	0%	0%	50%	0%	50%
Current position	50%	50%	50%	0%	0%
Exposure as at 31 January 2015					
Forsyth Barr	20.52	6.29	11.26		4.58
Elevation Capital	19.98	6.19	8.15		8.19
Total	40.50	12.48	19.41		12.76
Target cover at 13 Feb 15 ($m)	0.0	0.0	9.7	0.0	6.4
Current contract cover	18.75	5.800	8.500		
Strike rate purchased	0.7313	0.4817	0.6454		
Target minus current contract cover =	-18.8	-5.8	1.2	0.0	6.4
Contract surplus (deficit) ($m)	$0.29	$0.01	$0.08	$0.00	$0.00

Total current contract surplus (deficit) = 377,769.28

Historical hedging actions

9 Feb 2015 - 50% hedged to Euro, UKP and US$; 0% hedged to AUD and Yen; maturity 11 May 2015.

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

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

Notes

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

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

MCA
- actuaries & consultants -

Exchange rates: current and relative levels

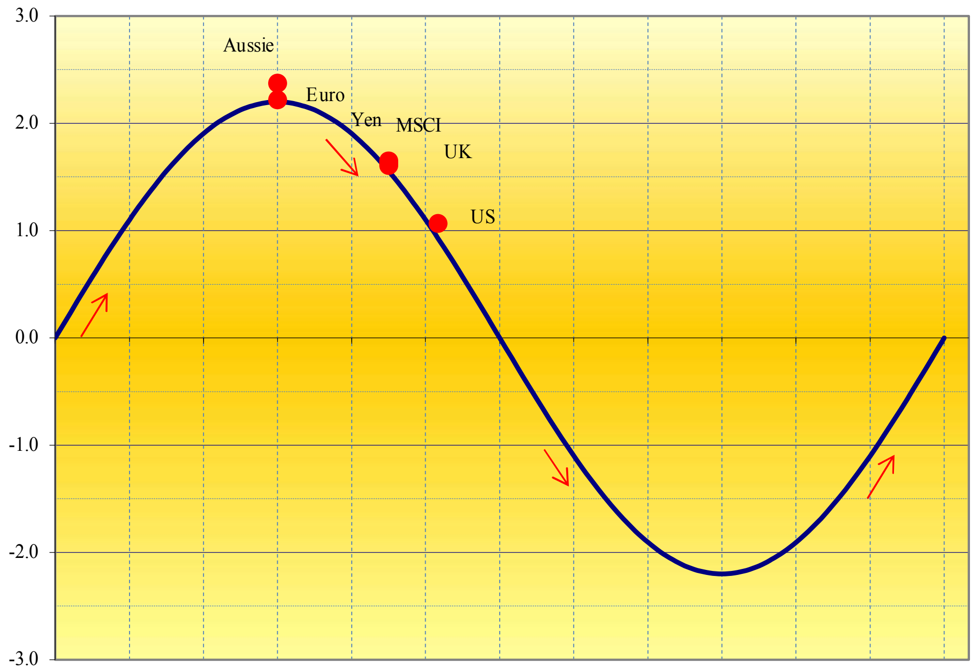
13 February 2015

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

	US	UK	Aussie	Yen	Euro	China	MSCI weighted
Current level	**0.7426**	**0.4826**	**0.9596**	**88.4500**	**0.6513**	**4.6369**	**0.6567**
Six months ago	0.8488	0.5087	0.9109	86.9800	0.6351	5.2219	0.7050
1-month average trend	down	down	up	down	down	down	down
3-month average trend	down	down	up	down	up	down	down
6-month average trend	down	down	up	up	up	down	down
1-year average trend	down	down	up	up	up	down	down
Historical statistics (post 1986)							
+2 standard deviations	0.8585	0.5171	0.9502	94.2907	0.6503	6.2145	0.6970
+1 standard deviations	0.7460	0.4506	0.8911	82.6018	0.5926	5.5115	0.6222
Average	**0.6336**	**0.3841**	**0.8320**	**70.9128**	**0.5350**	**4.8085**	**0.5473**
-1 standard deviations	0.5211	0.3176	0.7728	59.2238	0.4773	4.1056	0.4725
-2 standard deviations	0.4087	0.2511	0.7137	47.5349	0.4196	3.4026	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.

Stylised trend of exchange rate movements



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

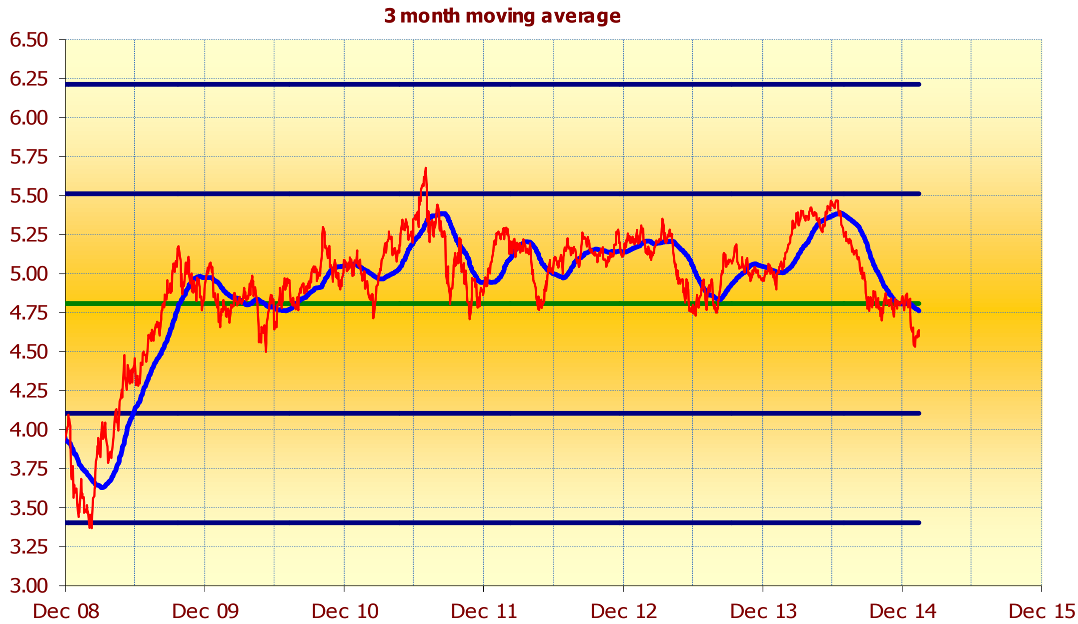
Currency trends

Exchange rates: current and relative levels

The graphs below plot the NZ dollar and the 3 month trend in the NZ dollar from 31 December 2006 to 13 February 2015, against the long-term average and standard deviations since 1986.

	Current	12 month	6 month	3 month	1 month
US	0.7426	down	down	down	down

China	4.6369	down	down	down	down



Currency trends
Exchange rates: current and relative levels

The graphs below plot the NZ dollar and the 3 month trend in the NZ dollar from 31 December 2006 to 13 February 2015, against the long-term average and standard deviations since 1986.

UK	0.4826	down	down	down	down

Euro	0.6513	up	up	up	down

Currency trends

Exchange rates: current and relative levels

The graphs below plot the NZ dollar and the 3 month trend in the NZ dollar from 31 December 2006 to 13 February 2015, against the long-term average and standard deviations since 1986.

Australia	0.9596	up	up	up	up

Japan	88.4500	up	up	down	down

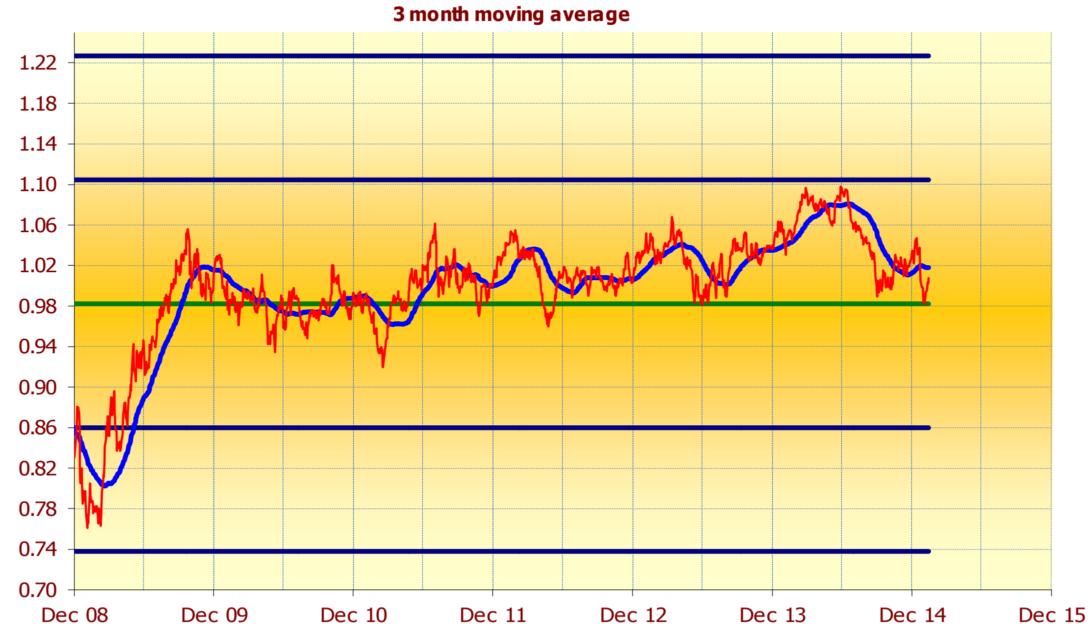
Currency trends

Exchange rates: current and relative levels

The graphs below plot the NZ dollar and the 3 month trend in the NZ dollar from 31 December 2006 to 13 February 2015, against the long-term average and standard deviations since 1986.

Canada	0.9290	down	up	up	up

Singapore	1.0073	down	down	down	down



Currency trends

Exchange rates: current and relative levels

The graphs below plot the NZ dollar and the 3 month trend in the NZ dollar from 31 December 2006 to 13 February 2015, against the long-term average and standard deviations since 1986.

MSCI	0.6567	down	down	down	down

Twi	0.7661	down	down	down	down

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

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

Monthly Market Review
31 January 2015

nikko am
Nikko Asset Management

	Month End Index	Percentage Performance Month	3 Months	12 Months	Year to Date since: 31 Dec 2014	31 Mar 2014
NZ Indexes						
NZX50 Gross	5,744.00	3.16%	6.61%	17.84%	3.16%	11.75%
NZX50 Gross with Imputation Credits	6,597.33	3.16%	6.81%	19.45%	3.16%	12.94%
NZX10 Gross	5,747.43	2.06%	4.55%	10.64%	2.06%	4.43%
NZSX Small Companies (Gross) Index	36,672.56	2.24%	3.77%	3.34%	2.24%	8.42%
NZSX Small Companies (Gross) Index w Imps	41,202.01	2.25%	4.06%	4.75%	2.25%	9.65%
NZX Property Sector (Gross) Index	3,911.87	4.40%	10.67%	30.25%	4.40%	28.04%
Australian Indexes						
All Ordinaries Accumulation (NZD)	50,902.66	5.58%	-3.47%	10.67%	5.58%	6.35%
S&P/ASX 200 Accumulation (AUD)	48,684.64	3.28%	1.98%	12.48%	3.28%	6.84%
Other Indexes (in stated currency)						
MSCI World (NZD) with net divs	6,148.37	5.74%	5.61%	19.23%	5.74%	21.65%
MSCI World Price Index (NZD)	2,311.29	5.66%	5.26%	16.94%	5.66%	19.82%
MSCI World (NZD) with net divs 50% Hedged	874.62	2.67%	3.96%	17.86%	2.67%	16.27%
MSCI World (NZD) with net divs 100% Hedged	1,188.21	-0.39%	2.24%	16.20%	-0.39%	10.90%
MSCI Emerging Mkts (Local) with net divs	442.39	1.42%	0.01%	11.63%	1.42%	7.24%
S&P 500 (USD)	1,994.99	-3.10%	-1.14%	11.92%	-3.10%	6.55%
DJIA (USD)	17,164.95	-3.69%	-1.30%	9.34%	-3.69%	4.30%
Nasdaq (USD)	4,635.24	-2.13%	0.10%	12.95%	-2.13%	10.39%
Nikkei 225 (JPY)	17,674.39	1.28%	7.68%	18.50%	1.28%	19.20%
FTSE 100 (GBP)	6,749.40	2.79%	3.10%	3.67%	2.79%	2.29%
DAX (EUR)	10,694.32	9.06%	14.66%	14.91%	9.06%	11.91%
CAC 40 (EUR)	4,604.25	7.76%	8.77%	10.53%	7.76%	4.84%
Other Sectors						
NZX NZ Government Stock	1,484.95	2.26%	4.17%	9.26%	2.26%	8.87%
NZX Corporate A Grade	4,489.56	1.45%	2.90%	8.10%	1.45%	7.40%
Barclays Global Agg Index Hedged to NZD	344.85	2.34%	4.47%	11.85%	2.34%	10.74%
Citigroup WGBI Hedged to NZD	2,893.00	2.49%	5.15%	12.65%	2.49%	11.55%
Citigroup WGBI Unhedged (NZD)	589.41	7.38%	5.54%	9.15%	7.38%	15.57%
NZX NZ 90 Day Bank Bill	652.63	0.31%	0.93%	3.43%	0.31%	2.97%
UBS Global Real Estate Investors TR Hedged	3,676.04	7.53%	12.43%	36.75%	7.53%	30.53%
West Texas Intermediate Crude Oil (USD)	48.24	-9.44%	-40.10%	-50.52%	-9.44%	-52.51%
Brent Crude Oil (USD)	50.77	-8.95%	-40.13%	-52.64%	-8.95%	-52.54%
Gold (USD)	1,283.77	8.35%	9.40%	3.15%	8.35%	-0.02%
Foreign Exchange (NZD)						
AUD	0.9320	-2.42%	5.31%	0.55%	-2.42%	-0.45%
EUR	0.6432	-0.42%	3.59%	7.25%	-0.42%	2.16%
GBP	0.4833	-3.59%	-0.61%	-1.80%	-3.59%	-7.16%
JPY	85.2561	-9.02%	-2.24%	3.37%	-9.02%	-4.60%
USD	0.7258	-7.14%	-6.70%	-10.26%	-7.14%	-16.36%

New Zealand Yields	90 Day Bank Bill	3 year Government Bond	10 year Government Bond
	3.67%	3.13%	3.18%

Nikko Asset Management New Zealand Limited manages NZ$4.0 billion on behalf of a diverse group of clients, including charitable trusts, superannuation schemes, local government authorities, KiwiSaver scheme providers, private banks, financial advisers and intermediaries. We offer expertise in management of domestic assets (equities, fixed interest and cash) as well as global sectors (equities, fixed interest and alternative investments).

NZ Observer

ISSN 2422-8672

February 2015

Mission Statement

To assist Kiwi SMEs in planning for their likely upcoming operating environment by discussing the economy and its implications in a language they can understand.

Welcome to the first issue of the NZ Observer – a replacement with monthly frequency for the previous Weekly Overview, but with a change in focus. The Weekly Overview was a catch-all document with special emphasis on the housing market, comments on most NZ data releases in the preceding week, and discussion on ups and downs in interest rate and exchange rate markets though with decreasing emphasis on these areas over time. It derived in 1998, like essentially all other economics newsletters out there, from a financial markets perspective with an initial primary audience of large money movers.

The NZO in contrast is aimed squarely at NZ SMEs as input into monthly or quarterly planning sessions regarding the likely operating environment an SME will face over the next 1 – 5 years and how the business might adjust itself to allow for that likely environment. The NZO is not intended for an audience of investors, nor large corporate businesses, nor managed funds, nor traders of financial assets. It is aimed at the near 147,000 SMEs in New Zealand, (there were 150,000 before the GFC) of which some 135,000 are Small with fewer than 20 employees, and 12,000 are Medium with between 20 and 99 employees. Together they account for 53% of NZ employment.

Lets start with what must be the over-riding theme for SMEs thinking that they can develop a strategic or operational plan which will allow them to comfortably profit from the expected operating environment. It can't be done. The reason is that there is no chance that anyone, be they futurist, economist, battle-worn entrepreneur, highest level connected politician, or policy maker, can accurately pick what the world will throw at us in the next five years, three years, one year, or frankly even one month. Think of all the tens if not hundreds of billions of dollars of investment in energy projects now deemed a waste of time because of the unpredicted collapse in oil prices. Think of the near universal forecast at the start of 2014 that accelerating US economic growth would push US bond yields higher. Their ten year government bond yield started the year at 2.8%. It finished at 1.9%.

The list goes on. The future hasn't happened yet. So how can you profess to know what it will be? Does this mean that the very idea of planning for the future is pointless? Definitely not. You may not have the foggiest idea at 16 years of age who you will partner up with. But you primp and preen regardless. You put yourself in a position socially where you maximise your chances of finding someone as a mate (and statistics tell us you'll still fail eventually), you learn techniques and rules to better your chances, and you learn how to recover as you struggle and fail for sometimes many years before finding your true one – or you settle.

The point is, you rearrange yourself, what you do and how you do it to maximise your chances of profit in an uncertain world. That is what strategic planning is about. Flexibility and learning. You have your area of expertise. We will outline the likely environment you will operate in, and will seek to update our outlook as facts and likely facts change. We will attempt to dissuade you from what we think are quite unreasonable expectations for what the future will bring. Success of your business will then depend upon not relying on unreasonable scenarios, gearing toward what will probably happen, and adjusting quickly as facts and expected facts on the ground change.

Let us start then by outlining at the highest level, what we think the economic environment will look like over the next five years. Hopefully next month we will write the same stuff here. Post-GFC history tells us we won't.

What Lies Ahead?

New Zealand's economy has grown well over the past four years with growth averaging 2.1% and 2.9% growth achieved in the year to September. Better success is seen in the employment statistics with job numbers ahead 221,000 since 2009 and up 3.5% last year with full-time employment ahead 3.8%. Median household incomes have risen on average 2.9% per annum the past five years with growth of 4.7% last year and 4.1% the year before that.

Drivers behind the growth have been the construction sector, a surge in dairy production and investment, ongoing growth in the services sector such as computer systems design, growth in healthcare, early childcare and education, and public administration. Manufacturing has however continued its secular decline, there is no acceleration in the pace of wages growth, and growth has been concentrated in our two biggest cities with the rest of the country not faring so well.

The most recent economic numbers show a lift in the pace of activity since the general election in September. House sales were ahead 11% in the three months to January from a year earlier, with Waikato/Bay of Plenty up 22%, Wellington 16%, Southland 13%, Nelson 14%, and Auckland 11%. The annualised pace of price gains has lifted, most notably to 18% in Auckland but much less elsewhere in most instances.

Consumer confidence has risen along with business sentiment, employment and investment intentions have not lifted but they do remain at well above average levels. Non-residential construction consent issuance has lifted firmly, and tourism inflows have improved.

So what lies ahead from now? First it pays to note that post-GFC a lot of things have changed and these changes have rendered fairly much all economic models unreliable as they are based on how things were before the crisis. In particular, consumers are more price sensitive than before, they feel less job security, everyone is more debt sensitive, businesses outside oligopolistic sectors lack pricing power, interest rates are structurally lower, central banks are becoming more interventionist, inequality of wealth has risen along with concerns about child poverty, income inequality and access to employment (overseas), and so on.

Plus our economy is experiencing at least six shocks, the effects of which we are just taking stabs at. These shocks are

-A near $7bn fall in dairy incomes this season.
-Drought
+A migration boom
+A 20% shock fall in petrol prices.
+A sharp change in interest rate expectations – downward.
+A renewed surge in Auckland house prices as the shortage we have noted for over half a decade goes further and further to the front minds of people. Plus lots of demographic changes are underway which we will write about somewhere else this issue or in a later one.

Being shocks we can only guess at their duration and what their effects will be. But in some cases such as investors searching for long-term yield they could be profound.

Here are the factors we expect to underpin growth over the next two years at least.

- Catch-up house construction in Auckland
- Catch-up infrastructure investment in Auckland
- Reconstruction in Christchurch
- Leaky building remediation, largely in Auckland
- Earthquake strengthening of buildings around the country
- Strong population growth courtesy of above average net migration inflows

- The structural decline in interest rate expectations boosting investment, durables spending, debt tolerance.
- The probable structural fall in petrol price expectations freeing up spending but curtailing investment in the energy sector – both oil and gas as well as green technologies.
- Investment in farm irrigation schemes
- Continued dairy sector expansion though at a slower pace than before

These factors will act to restrain growth from getting much above 3.5%.

- A near $7bn fall in dairy incomes this season
- Drought in some parts of the country
- A firm NZ dollar against the currencies of Japan, Australia, and the Eurozone.
- Continued loan to value ration restrictions and a high chance of further restrictions being imposed
- A continuation of the secular decline in the manufacturing sector
- Labour shortages – already apparent in a number of sectors

Bringing together these factors and many others including the world growth environment which we have not discussed this month, we get the following outlook.

Key Forecasts

Calendar Years	2012	2013	2014	2015	2016
GDP	2.4	2.2	3.2	3.1	1.8
Inflation	0.9	1.6	0.8	0.6	2.3
Employment Growth	0.4	3.0	3.5	2.7	1.3
Unemployment Rate	6.8	6.0	5.7	5.7	6.3
NZD/USD	0.83	0.82	0.78	0.70	0.66
NZD/AUD	0.79	0.92	0.94	0.95	0.88
NZD/GBP	0.52	0.50	0.50	0.49	0.47
NZD/EUR	0.63	0.60	0.63	0.65	0.61
NZD/JPY	69.5	89.1	92.6	86.1	82.5
90-day bank bill rate	2.6	2.7	3.7	3.8	4.5

The main point to note is an anticipated easing in the pace of growth next calendar year as the pace of growth in construction, employment, and household spending eases off. In broad terms we can outline the following implications.

NZD
The NZD will in general ease away, but the risk is that it will be well supported against the Aussie dollar, Japanese Yen, Euro and to a lesser extent the British Pound by high relative interest rates, a good economic story, and woe in Europe, Japan, and to a lesser extent Australia. We expect the NZD to edge lower against the greenback as the US economy appears to be in improving shape. Exporters and importers should be awake to potential chances for good rates stemming from fluctuations resulting from shock developments regarding the likes of Greece, Russia, and China in particular.

Interest rates
Although the markets are pricing in at least one 0.25% cut in the official cash rate by this time next year we still for the moment expect rises in 2016 on the back of declining capacity availability, an eventual lift in the pace of wages growth, and the Reserve Bank desire to try and stem shifting investment into the housing market. Fixed borrowing costs are expected to drift upward as the year proceeds, pushed partly by higher US yields as the Federal Reserve tightens monetary policy from around mid-year. Firms should look for opportunities to lock in low medium to long-term fixed rates in the first half of 2015.

Labour market
The proportion of the working age population already in work or actively looking for it is already at a record high of almost 70%. This compares with near 63% in the United States and 65% in Australia. For now the migration boom is keeping wages growth suppressed. But eventually labour availability will decline substantially, there will be a wages response, and firms will need to think less about expansion and more about boosting profits through cutting output and raising prices. That is not a story however for this year but more late-2016 through 2017-18. Given their relatively high turnover of staff, below average remuneration, and exposure to loss of key personnel, the tightening labour market will be far more of a problem for SMEs and Small businesses particularly than Large companies with 100 or more staff.

Construction
Very high levels of activity this year through into 2017. Business opportunities will present themselves for many existing and new operators in the widely defined construction and construction servicing sectors. Be wary of new start-ups led by people without experience of the way the sector can and usually does end a boom with a large crash.

House prices
Gains strongly continuing in Auckland and Christchurch and investors searching for yield pushing prices up first in regions near to Auckland then further afield. People who bought regional properties some years back and who have been disappointed with capital gains might look to sell into this movement of investors out of the big cities early next year.

Tourism
Good outlook on the back of the trend rise in outward Chinese travel and catch-up travelling by Europeans and Americans. Inbound visits from Australia are likely to be muted. Be careful of fluctuations around the rising trend in Chinese visitor numbers. The market is immature and can be influenced by official guidance as to where people "should" or "should not" travel.

Retail
Discussed below – good prospects but a sector facing some deep challenges and changes. A rising tide will definitely not lift all boats.

Financial services
Debt aversion by consumers and businesses will slowly ease off, low interest rates and interest rate expectations will boost credit demand, and investors will more actively seek yield with money moving out of term deposits into other areas like residential and commercial property. Bank disappointments at failing to meet sales targets in recent years will drive intense discounting campaigns as is happening increasingly with home mortgages. The tendency to ease lending criteria will attract attention from the Reserve Bank. Watch particularly comments from the RB regarding Auckland housing and lending to the dairy sector which now faces greater volatility in incomes because of high dependence upon the China market.

Farming
Mixed as ever but with hefty restraint in dairying due to the payout decline. Long-term prospects very positive on the back of rising demand for quality food and beverages in emerging economies, and plenty of scope for development in the agritech sector. Employment growth in farming however will be very muted as young people show a preference for city-based service roles and the worsening labour shortage may drive a wave of labour-saving technology through the sector. Researching and developing such input technology good be profitable, just as processing primary products into more sophisticated and offshore respected food and beverage items is a field with huge opportunities.

Manufacturing
Good for construction-related firms, good as usual for the generally undefinable "high-tech" sector, but a continuation of the secular decline for most other areas. As individual firms drop out of the sector this reduces viability for other manufacturers and service providing companies.

Retailing

- A positive outlook, but first three caveats.

There are a huge number of businesses in the retailing and retail supply and support sectors, so we will make an effort to give some irregular insight into how the broad retail sector is faring. People will want us to write about specific sectors – but be warned. We treat with caution the nationwide data covering all sectors, consider only vaguely accurate the sectoral numbers, place little faith in the regional all-sector data, and would pay no attention to regional data broken down by store type. So that is the first caveat.

The second and more important one is this. The determinant of success for any individual retailer is most definitely not the overall broad trend in retail spending which we macroeconomists write about. It is the ability of the operators on the ground to respond to changes in local competition, consumer tastes, input costs, footpath flows (roadwork effects etc.), weather patterns, and such-like. Consider for instance what is happening in clothing retailing. In 2014 the volume of all non-auto retail spending rose by 4.2% and spending on clothing and footwear rose by 1.8% which is not horribly far below its decade average growth pace of 2.8%. So a tad weak but not devastating. However we have seen quite a number of clothing chains in trouble recently. JK Kids, Postie Plus, Shanton, Pumpkin Patch, plus warnings from Kathmandu and The Warehouse.

If we economists manage to develop models which explain changes in retail spending in aggregate or even by store type, that in no way makes obvious what the likely profitability will be for operators in an individual sector.

The third caveat to note is that post-GFC, as with most other forecasts, those for retail spending have largely been overly optimistic. Sales growth has tended to come in below expectations. Why? Partly because consumers are now more wary of debt than pre-GFC and they wish to reduce debt levels. Additionally, in most economies jobs growth has been weak, but even in countries like NZ and the United States with good growth, wages growth has failed to accelerate. Consumers are not thinking in terms of good rises in incomes in the future against which they feel safe boosting spending now. People are also highly price conscious and increasingly resistant to price rises as they get used to falls for electronic goods and talk of deflation generally.

Retailers therefore in aggregate should be approaching their operating environment with this broad framework. Consumers will be tending to boost their spending. But they will be cautious, won't want to load up on debt, are not encouraged to spend by extremely low interest rates, are wary of future income levels, and are likely to have their spending willingness continually dented by a string of bad news developments.

These latter are discussed elsewhere but include the likes of potential breakup of the Euro and the EU, Islamist terrorist attacks, Ebola and whatever follows it, rising nationalism in Russia, Japan, China, and Asia more generally, rising NZ dependence upon milk, oil price shocks, "what happens when the Christchurch rebuild ends?", and so on.

So now lets run through the most recent measures of retail spending growth then take a look at measures of things which we believe influence what the pace of spending growth will be in the future. By store type retail volumes have risen in the past two years ending December as shown below. The second column shows the extent to which prices for store type goods have fallen in the past two years. We have done this to show that sales have tended to grow strongly for store types cutting prices, and not so much for those raising them. Consumers are price sensitive.

	Two year sales growth	Deflator 2 year change
Electrical & electronic goods	24.6	-16.3
Hardware & garden supplies	19.1	1.9
Motor vehicles & parts	16.3	-2.5
Furniture, floor coverings etc.	14.9	-0.1
Department stores	14.4	-4.3
Non-store & commission retailing	12.6	-1.1
Food & beverage services	11.3	3.2
Recreational goods	10.6	-1.9
Liquor	9.7	-2.6
Specialised foods	7.4	2.2
Accommodation	7.1	3.8
Pharmaceutical	4.3	-0.5
Fuel	3.1	-3.3
Supermarkets & grocers	0.9	2.5
Clothing & footwear	0.2	-1.4

Most recently total retail spending excluding the volatile automotive categories rose by 1.5% which makes five quarters in a row of growth above 1% and 4.2% growth for the year to December 2014 compared with the year to December 2013. Spending growth has averaged 2.5% per annum since 2005 so this is a firm result.

Our first set of data above looked at price changes and sales growth. This next list looks at the change in spending by store type on a per capita basis since 2007 when things were last very strong in retailing in New Zealand. This is one way of getting an indication of longer term consumer spending changes.

	Versus 2007 per capita
Electrical & electronic goods	99.3
Non-store & commission retailing	83.6
Department stores	18.4
Pharmaceutical	13.0
Accommodation	6.9
Core Industries	5.7
Food & beverage services	4.4
Furniture, floor coverings etc.	3.3
All	3.2
Motor vehicles & parts	2.7
Specialised foods	2.4
Clothing & footwear	1.9
Liquor	1.2
Supermarkets & grocers	-0.9
Recreational goods	-4.5
Fuel	-13.6
Hardware & garden supplies	-16.1

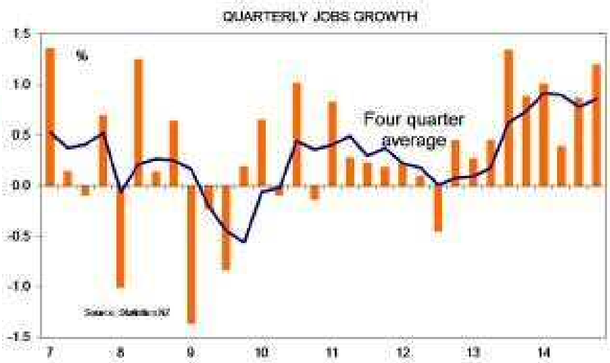
Another way might be to look at changes in the number of specialised retailers by sector type. Since 2007 there have appeared a lot more cafes and restaurants, more supermarkets or Grocery Stores and Food Specialists, but fewer Fuel Retailers, Furniture and Clothing stores etc. What does this tell us? Actually nothing too much with regard to consumer spending patterns and perhaps more with regard to some sectors consolidating toward bigger single outlets as for Electrical and Electronic Goods for instance where store numbers are down 17 but spending per capita up 95%. Just because sales are booming DOES NOT mean more of that store type will be opened up.

ANZSIC Code	2007-14 change in Enterprise numbers
H451 Cafes, Restaurants and Takeaway Food Services	1404
G411 Supermarket and Grocery Stores	287
G412 Specialised Food Retailing	196
G431 Non-Store Retailing	85
G392 Motor Vehicle Parts Retailing	61
G432 Retail Commission-Based Buying and/or Selling	7
G426 Department Stores	-2
H453 Clubs (Hospitality)	-15
G422 Electrical and Electronic Goods Retailing	-17
H452 Pubs, Taverns and Bars	-52
H440 Accommodation	-77
G400 Fuel Retailing	-92
G423 Hardware, Building and Garden Supplies Retailing	-129
G421 Furniture, Floor Coverings, Houseware and Textile Goods Retailing	-152
G425 Clothing, Footwear and Personal Accessories Retailing	-196
G424 Recreational Goods Retailing	-201
G391 Motor Vehicle Retailing	-209
G427 Pharmaceutical and Other Store-Based Retailing	-243

Consumer preference for repaying debt rather than spending was revealed a year ago in a MasterCard survey, and this year in a Nielsen survey discussed at the following link.
http://www.stuff.co.nz/business/money/65488782/kiwis-careful-with-money-despite-growing-confidence-nielsen

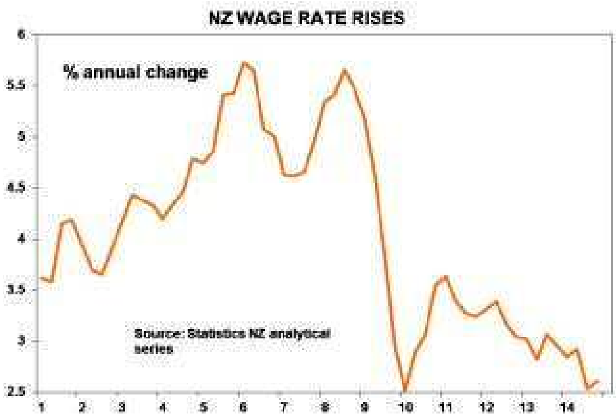
With regard to what spending may do over the coming year we can shed some light by looking at the following influences.

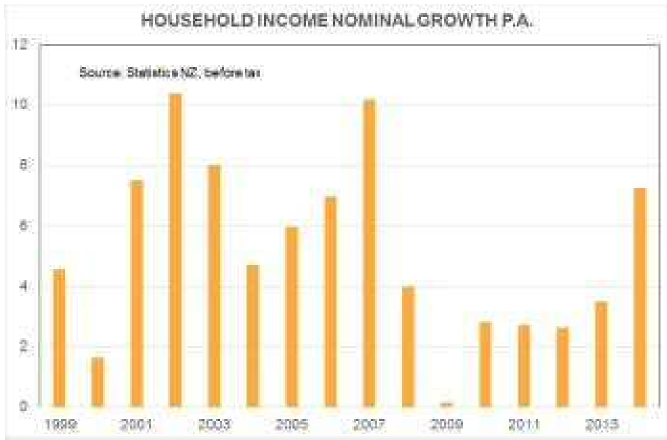
Consumer Confidence
This is strong and perhaps helped by sharp changes in interest rate and petrol price expectations improved in the most recent ANZ Roy Morgan Survey to a reading of 128.9 in January from 126.5 in December and an average reading of 118.



Employment
Jobs growth is very strong. At the end of last year employment was 3.5% ahead of a year earlier with full-time job numbers up 3,8%. People are so confident of finding work that the participation rate (the proportion of the working age population in work or actively looking for it) rose to a record high of 69.7%. Employer demand for people is also strong with the NZIER's Quarterly Survey of Business Opinion showing a net 21% of non-farm businesses planning to hire more people. The average reading is just 3% and the latest result is the strongest since 2004.

Household Incomes
There is essentially zero evidence that wages growth is yet accelerating – as shown in the first graph below. However when we take into account the sharp growth in employment we get a rise in total gross household incomes for all NZ in the year to June 2014 of over 7%.





Interest rates
Borrowing costs rose last year but have since declined for fixed rate loans. More importantly however for our purposes, expectations for where interest rates will go have changed amazingly sharply to the point where this cycle might produce no rises beyond the 1% in total already undertaken. This represents the absence of a negative for retail spending, rather than the presence of a positive as such.

We could also mention the positive effect of rising house prices boosting wealth and therefore perceived spending power. However post-GFC this effect is likely to be very weak so we shall for now not reference it – and it certainly would have little relevance outside of Auckland and Christchurch anyway.

Just about everything is in favour of higher retail spending, though at the local level one needs to factor in the effects of drought and reduced dairy incomes. In the cities however sales growth is likely to be good on average this year. But remember that consumers are price sensitive and perhaps getting more so as headline inflation heads to zero, that debt aversion is high, and that there are some big demographic shifts underway. That is, some places have populations rising strongly, others not so, some with perhaps falling numbers of people. And for those latter places one is likely also to be seeing rapid aging of the average consumer. We will examine updated regional population projections from Statistics New Zealand in a future NZ Observer.

Finally, keep in mind the restraining effect on retail spending, even given all the factors mentioned above, of rising expenditure on services and things which can't easily be avoided. In recent years costs/spending for households have increased firmly in areas like

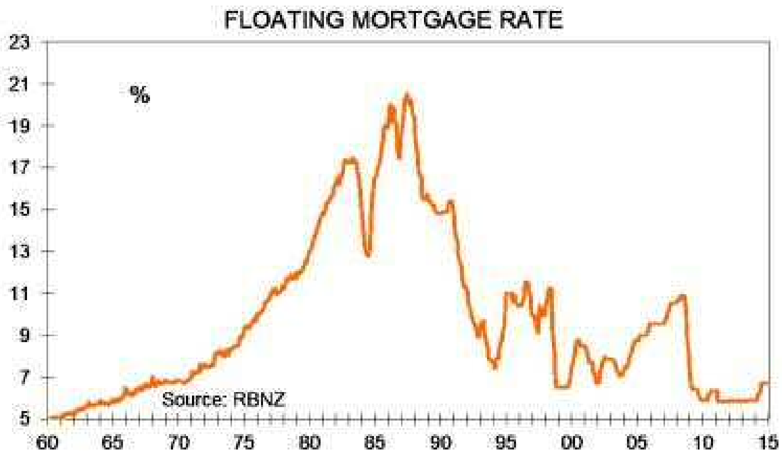
- electricity supply,
- local authority rates,
- home and contents insurance,
- subscription television,
- telecommunications services,
- childcare,
- house purchase though rents to a much lesser extent on average,
- petrol price levies
- entertainment entry costs (pop stars, Nitro Circus $540 for a family, stadium sports)
- Overseas travel

In addition a chunk of spending has been taken out of play through KiwiSaver.

Borrowing Costs

Before you read any commentary on developments in interest rate markets and where someone thinks rates will go you should remember this. Not a single person on the planet has had their interest rate forecasts prove accurate since the start of 2008. Invariably interest rate forecasts have been too high. One day they will be too low, but there is no way of knowing when. Thus, as we have been explicitly writing in our publications for five years now we repeat our central warning. No-one should base their interest rate risk management decisions on a particular set of interest rate forecasts proving accurate. That would be foolish.

And so to what has been happening recently. Let us interpret recently in this context as the past half a century. Back in February 1965 the average home floating mortgage rate was 5.8%. It is now 6.7% but was 5.87% a year ago. In the 1960s and 1970s rising inflation pushed interest rates up. In the 1980s the fight against inflation pushed them higher. In the 1990s and 2000s interest rates were lower but at times high on the back of fighting cyclical inflation, and low when bad times came around. Now interest rates are only just above 1960s levels courtesy of borrowers not being so hungry for debt. If they were then these current low rates would already have generated a truly massive surge in borrowing. Imagine how many houses each of us would have bought in the 1980s, 90s or 2000s had we been able to access funds below 6%. Interest rates are low now largely because credit demand is weak.



When credit demand is no longer weak interest rates will go higher else a huge borrowing binge will occur with inflationary consequences. Are we close to this point and should you be highly fearful of borrowing costs jumping sharply? Not at all. The chances are your borrowing costs will remain low well into 2016 though our official view is fixed rates edging up by midyear and floating rates rising next year.

Instead of inflation and surging credit growth occupying the minds of central bankers and ourselves it is deflation which has become of concern. This is the situation where consumer prices on average are falling. Why is it dangerous and why therefore is there a lower band to the Reserve Bank's inflation target as well as an upper band – 1% to 3%? There are three main reasons.

1. If consumers believe prices will fall their incentive is to delay spending until this occurs. The risk is they keep delaying in order to gain extra discounts and the plunge in spending causes closures of factories, unemployment, loss of spending power, and a depression or at least protracted recessionary conditions as experienced by Japan the past couple of decades.
2. Low inflation/deflation means low interest rates which means only a limited interest rate buffer available to a central bank in cases of negative economic shocks. When the GFC struck in 2008 our central bank was able to greatly assist the NZ economy by cutting the official cash rate almost 6% from 8.25% to 2.5%. Were a new GFC to occur the rate cut would be just a maximum 3.5%.

3. Low inflation means low nominal growth in output therefore government and corporate debt burdens relative to income do not get reduced as fast as when inflation is average or high. Debt weighs more as a constraint on business sector growth and government ability to prepare for future shocks by reducing debt ratios.

Around the world already low inflation rates have been pushed lower by the over 50% collapse in oil prices causing consumer petrol prices to plunge. Here in New Zealand we expect the annual rate of inflation to fall to near 0% in the March quarter. Does this mean the Reserve Bank should immediately cut the official cash rate to stimulate inflationary pressures? No. Our inflation rate rose above 5% in mid-2008 yet the Reserve Bank slashed interest rates. What is driving the inflation/deflation is important and in that case it was the temporary effect of a plunging NZ dollar with very bad economic times in prospect due to the global financial crisis. This time it is the effect (partly) of an oil price shock downward, and our economic prospects look very good.

Thus we do not expect our central bank to continue the 1% rise they made in the official cash rate between March and July of last year until – well there be the rub. Our initial view was October 2014 for the cash rate to rise above the current 3.5%. Then we shifted to December. Then the middle of this year. Then the end of this year. At this point in time we think the first half of 2016.

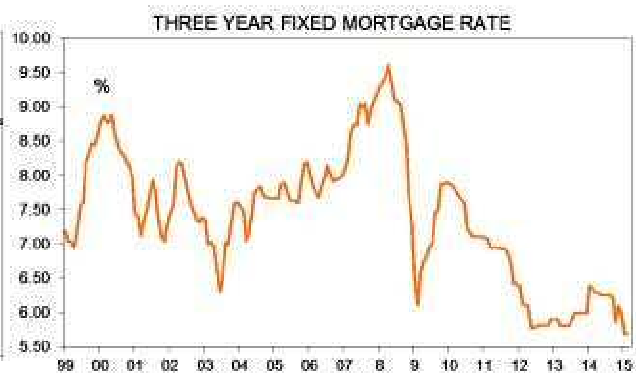
In no way can you as a borrower reasonably develop a hedging policy based upon forecasts for when floating rate borrowing costs will rise. Instead you must consider how damaged your bottom line would be were interest rates to suddenly jump by 1%. If the answer is not at all then one may as well stay floating. If a lot then look at fixing the interest rate on part of your debt, perhaps with some fixed for a year, some for three years. Just get a spread is the main message.

Speaking of fixed interest rates – they have fallen in recent months which is 100% the opposite of what we all expected would happen. Take the three year fixed housing rate for instance as a gauge. It was 6.35% this time last year. It was 5.99% at the start of 2015 and is now 5.59%. Why the decline? Because bank borrowing costs have fallen in response to reductions in world growth forecasts and worries about global deflation. The benchmark United States ten year government bond yield for instance has fallen to near 2% from 2.85% a year ago and 2% at the end of last year. A couple of weeks ago the rate was below 1.7% but since then strong data on employment in particular have boosted expectations of US monetary policy tightening from the middle of this year.

If I Were A Mortgage Borrower What Would I Do?

At some point, probably in the first half of this year, fixed borrowing costs will be as low as they are going to get. Post-2008 experience tells us that we will not be able to pick this point in advance. Therefore, given our expectation that eventually fixed rates will be pushed upward by economic developments principally here and in the United States this year, each borrower will have to make their own call regarding when they feel rates are low enough for them personally to lock in.

Currently the drift in rates is downward, assisted strongly by banks trying to boost market share. Were I borrowing at the moment I would hold off for another round of cuts in fixed rates. If someone offered me a four or five year rate at 5.5% I would take it today. A three year rate at 5% would win my business right away also.



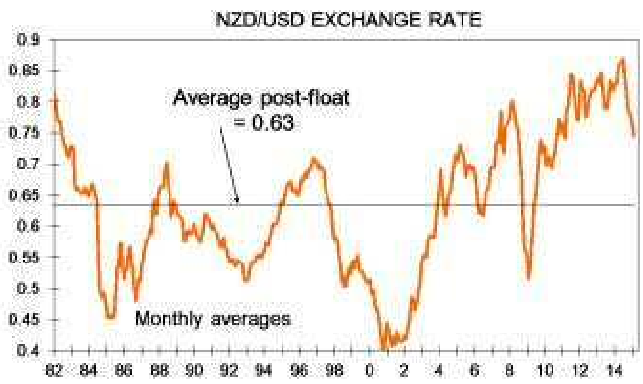
The biggest threat to my being able to achieve such low rates and therefore the thing I will want to keep a close eye on in the news would be the US economy. Any string of data showing growth taking off could trigger a bond market selloff. Frankly however, there is for now a greater risk of shocks pushing yields lower rather than higher, including the risk of a Western war with Russia, Greece leaving the Euro (that seems inevitable and EU departure could follow), and bad economic developments in Japan and Europe.

NZ Dollar

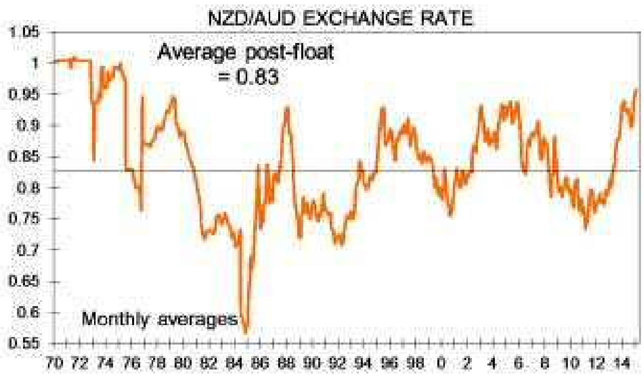
There is no proof that anyone before the GFC had the ability to reasonably accurately forecast exchange rates, and post-GFC whatever ability existed has become worse because of changes in relationships between economic variables. Therefore no exporter or importer should develop a currency hedging strategy which places more than a minor reliance upon a particular set of forecasts for where the NZ dollar will go over the next week, month, year or five years. That said, everyone wants a set of numbers which they can refer to in the future to say that at the time they made their hedging decision which eventually turned to custard it seemed reasonable to think that the NZD would tend to go up/go down/hold steady or so on.

In that regard we start this section by first of all looking at where the NZD has gone and why, and then we postulate what at this short-lived moment in time seems like a reasonable possible scenario for where the NZD will go. Next month if not next week a completely different scenario may well look reasonable.

Against the US dollar the NZD is currently near 74.5 cents from a peak of 88 cents in July last year. The decline these past few months has been driven by good data out of the United States and a now complete erasure of expectations in market pricing that there will be any further tightening of NZ monetary policy this cycle. Falling export prices have also contributed to NZD weakness. Our expectation is that good data will continue for the US, they will tighten monetary policy near mid-year, and that this will see mild NZD easing against the greenback over the next couple if years and perhaps into 2018 if the NZ economy's growth rate slows sharply as Christchurch construction falls away. At this stage little suggests a move below 60 cents in the next five years given limited downside risk for NZ interest rates from an official cash rate level of 3.5%.



Against the Australian dollar the NZD is currently near its highest level since July 1975 close to 96 cents. Just four cents away from one dollar one cannot rule out the possibility if parity being achieved. Why the surge since 2012?



Mainly it reflects weakness in the Aussie dollar which is currently near 77.5 cents from 90 cents a year ago and US$1.05 over two years ago. The Australian economy has grown by 2.7% in the past year with jobs growth of 1.6% so it is not in recession. But many chooks have come home to roost including

-the car vehicle assembly sector shutting down
-manufacturing generally suffering from the previously high AUD and poor labour competitiveness,
-23 years of no recession building up inefficiencies and over-optimistic attitudes through many sectors including government,
-a deteriorating Federal budget deficit track and political dysfunction slamming business expectations of both reforming policies and deficit control,
-retailing struggling to adjust to online competition,
-collapsed prices for iron ore and coal exports
-deepening worries about the pace of growth in China – which takes 37% of Australia's exports.

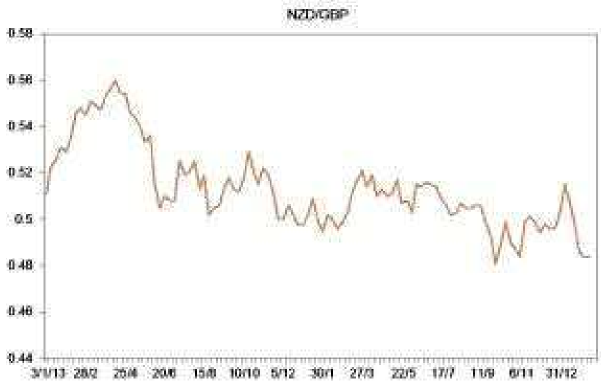
Growth of 2%+ is generally predicted for the Australian economy over the next couple of years. But just recently deepening worries about the short-term growth track have caused the Reserve Bank of Australia to cut the cash rate from 2.5% to 2.25%, and we expect another two 0.25% cuts this year. Given that prospect there looks to be a 50% chance that in the next few months the NZD will hit parity against the AUD. However this will not represent a new paradigm for the NZD. Our economy for this period is simply being artificially boosted by an extended one-off phase of dairy sector expansion which cannot continue indefinitely, rebuilding of Christchurch which will fade away, catch-up construction in Auckland which will however take a lot longer to ease off, and a migration boom which history tells us never keeps going. Picking when we are back at 75 cents however is honestly anyone's guess. But we will see it.

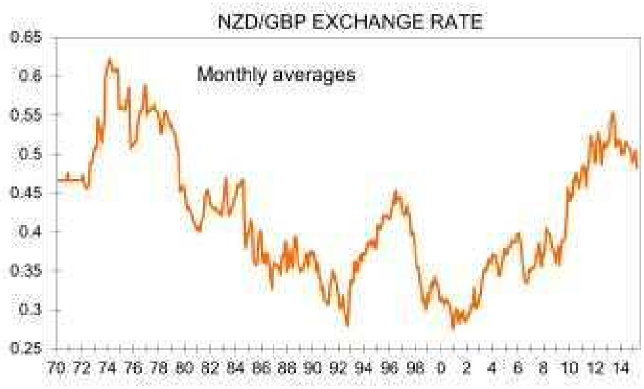
In brief, against the Japanese Yen we expect the NZD to generally remain strong because policies there so far aimed at sustainably boosting growth and inflation are failing. Although unemployment has fallen to 3.4% wages growth has yet to accelerate. Without that happening, in a world of spreading deflation inflation is likely to edge back down and already with core price rises of only 0.5% the goal of 2% sustained inflation looks like a pipe-dream. The Japanese economy has in fact just exited another recession partly caused by a consumption tax increase from 5% to 8% last April.

Against the Euro we also expect the NZD to stay well supported as things there, frankly, spiral downward. Although efforts have been made to improve functioning of the European Union's banking and financial systems since the GFC, there is widespread reluctance among politicians and voters to undertake reforms necessary to make many mid and southern EU members competitive on the world stage – especially against a resurgent United States and growing, modernising and integrating Asian economies.

Europe is losing its economic standing and with a socialist government elected in Greece it matters not whether agreement is shortly reached to avoid debt default – their policies of boosting the size of government, stopping privatisations, and essentially demodernising their economy will eventually crush their growth yet for now find support in other recalcitrant EU members and send debate on a path toward splitting up. Russian aggression against which the Europeans display Chamberlain-like staunchness just reinforce the ineffectiveness of the EU construct. Add in a UK referendum on EU membership in 2017 should the Conservative Party win the UK general election in May and investors are likely to ease further back from the Euro in coming years, weighting instead toward US and Asian investments.

And against the British Pound? It is hard to expect much weakness given that as debate grows about UK divorce from the EU uncertainty about the economic impact – which is not at all clear – will likely generate some selling of Sterling. No clear NZD/GBP view emerges.





Don’t Borrow Offshore Unhedged

As a small business owner you probably have debt and would like the interest rate you pay to be lower. You will eventually notice that interest rates tend to be lower overseas and ask yourself whether you might be better off borrowing in a foreign currency. You will convince yourself that you are missing out on something obvious by believing that banks are borrowing in these foreign currencies then lending the money to you at much higher interest rates. You will get indignant, your view of banks will worsen, and this grumbling will affect your business first because your discontent will take intellectual and emotional time away from actually managing your business, and because you will waste time investigating how to borrow offshore. Don’t even think about it as you will be putting your business’ future at risk. Here is why.

Exchange rates cannot be predicted. You are a fool if you think they can. When banks borrow in a foreign currency and pay a low interest rate they convert the funds into higher interest earning NZ dollars, but they remove the risk that the NZD falls against the other currency by hedging away the risk. The key point to note is this. The cost of hedging away the risk of a bad currency movement is the difference in interest rates between the two currencies. Hedging basically removes the interest rate advantage.

If you borrow in Swiss francs for instance and use the funds to pay NZ bills but do not hedge the principal and interest repayments risk, you run the risk of a sharp jump in your liabilities should the Swiss franc rise sharply against the NZ dollar – which is exactly what happened on January 15. The exchange rate between our currencies went from near NZD1.26 to buy one franc to near $1.50 overnight. Had you borrowed initially the NZD equivalent in Swiss francs of $500,000 your debt would have ballooned to almost $600,000.

The jump happened because the Swiss central bank stopped trying to prevent the franc from rising against the Euro – just days after saying they had zero intention of altering their currency policy.

In the world of foreign currencies completely unpredictable things happen and currencies move for reasons which after the fact we economists can talk about in an intelligent manner and sound like we know lots of things, but which before the event we fail to pick. Bankers know that borrowing in foreign currencies is dangerous so do not promote foreign currency borrowing though such products are available. Note that while ultimately the reason such products are not promoted is that the borrower generally lacks the intellectual ability to understand the risks involved, the product does suit businesses which have receipts in foreign currency. If this is you however ask yourself these two things. How would you be left if you had to shift markets quickly and receive a different foreign currency? And, how would your balance sheet (liabilities versus assets in NZDs) look if the NZD were to fall sharply? You might be in breach of banking covenants were a sharp NZD depreciation to occur, and you could be put into receivership.

No Victoria, there is no offshore funding Father Christmas.

Auckland – Its Different

Since 1996 New Zealand's population has grown by 21%, Auckland accounts for 53% of that growth with a rise of 411,100 or 37%. In 1996 Auckland accounted for 30% of NZ's population. In 2013 the percentage was 34%. Come 2031 this percentage is projected to be 38%. The latest population projections (soon to be updated) show a central expectation of New Zealand's population growing between 2011 and 2031 by 18%. Auckland is picked to grow 33%, Canterbury 16%, Bay of Plenty and Waikato near 14%, Wellington, Nelson, Tasman, Marlborough near 11%, all the rest of NZ 6%. Some regions will show no or not worth speaking about population growth including Southland, West Coast, ManawatuWanganui, Taranaki, Hawkes Bay and Gisborne.

For your housing investment, business location etc. plans these projections should be your starting point. Why the extra Auckland population growth? The planet is increasingly urbanising and whereas technology may theoretically allow us to operate remotely with virtual presence, in practice it is bringing people physically closer together.

Increasingly business growth is coming not from minimising costs of production but from innovations, ability to respond on the ground to operating environment changes (agility), and ability to inculcate entrepreneurial attitudes amongst one's staff. Ideas, their promotion, their development, their execution, their monitoring, their altering are the strengthening source of success in a digitising world and the environment which best produces cross-fertilisation of ideas and technologies between businesses, and businesses and research organisations is an economically dense one – provided it has infrastructure which allows it to function well.

Research tells us that agglomerations (people, businesses) can produce 6% - 27% boosts in productivity for every doubling of population. Agglomerations tend to attract young aspirants looking to maximise income, advancement chances, and education and training. They attract businesses looking for economies of scale and closeness of a range of suppliers and diverse customer groupings which they can closely interact with to gauge how products and services are being received and need to be changed.

Auckland is New Zealand's only chance of an agglomeration which can deliver us these benefits in terms of job opportunities, income growth, and vital connectiveness with the rest of the world. Christchurch falls into this camp as well though to a smaller extent. For other cities and towns the global links are more likely to be firm or sector-specific rather than generalised. That generalised comment applied to Auckland might help explain why

- 50% of migrants to NZ go to Auckland,
- 39% of Aucklanders were born overseas versus 18% for the rest of NZ,
- 35% of Aucklanders speak more than one language compared with 20% for the rest of the country,
- 40% of people in NZ with degrees live in Auckland though the city accounts for just 34% of the NZ population,
- Auckland receives on average 44% of the people visiting New Zealand for business,
- Auckland accounts for 78% of intellectual property applications yet makes up 62% of the population of our five biggest cities (Statistics NZ special five city study)
- People cram into Auckland so the average number of residents per household stands at 3 compared with an average 2.5% in the rest of the country.

In the regions people have self-selected not to be in Auckland. Therefore their ability to understand the underpinnings of Auckland's growth and attractiveness to Aucklanders are likely to be low. That represents then a blindspot for councils and business organisations outside of Auckland thinking about how they can link into Auckland (and Christchurch's) growth – and that blindness may stop them seeking answers to the linking question in the first place and instead send them down a path of lobbying to force migrants out to the regions which Kiwis are voluntarily leaving. Without companies expanding in the regions and screaming out for employees such forced locating cannot work.

Auckland accounts for about 35% of NZ GDP and about 34% of our population. Both percentages will rise in coming decades as Auckland continues to attract migrants and returning Kiwis plus young people from elsewhere in NZ, though it will shed some aging people looking to free up cash for retirement elsewhere. For businesses generally around the country special attention may need to be given to developing a specific Auckland strategy in terms of branding, marketing, distribution system, and of course business location. Auckland's demographics are different from the rest of the country and will become increasingly so – more Asian, more Maori people, more Pacifica people, younger.

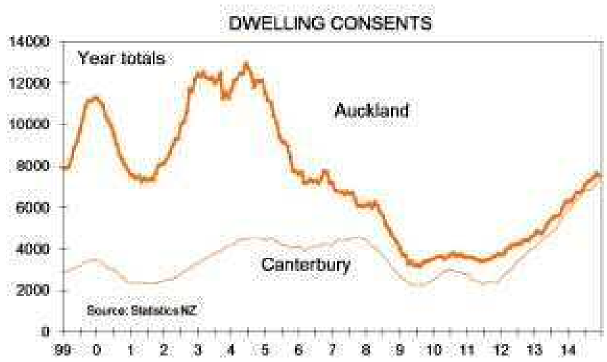
Of special interest is the Auckland housing market from this perspective. Housing sales in Auckland accounted for 35% of the NZ total in the past ten years, so are in line with population size. Nothing interesting there. However Auckland house prices are about twice the average outside of Auckland. Do the maths and that means that about 55% of the value of house sales activity in New Zealand occurs in Auckland. From a lenders point of view Auckland housing is however more important than that and perhaps around 60% of total nationwide lending. Why? Because the no mortgage home ownership rate in Auckland is 23% but outside of Auckland it is 29%. More properties in Auckland relative to the population have mortgages. Were property prices in Auckland and the rest of the country all of a sudden to be the same on average, Auckland mortgage market business would still exceed Auckland's population share of 35%.

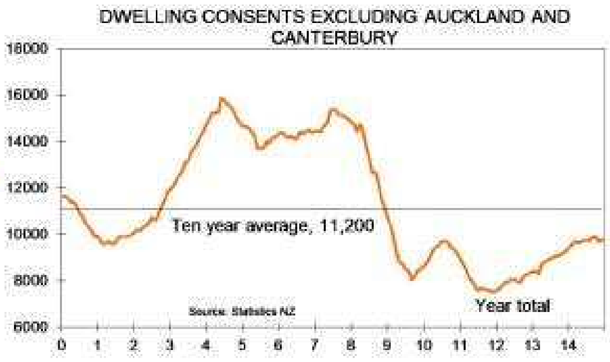
Therefore if you are a lender, if you are not getting your market share in Auckland you have got a problem.

Housing

Construction

Construction is on the way up with nationwide consent numbers in calendar 2014 ahead 16% from 2013, 10% above the 20 year average and well ahead of a five decade low near 13,500 in mid-2011. Auckland consents have risen by 21% in the past year from 37% growth in 2013 but sit only right on their 20 year average of 7,500. Canterbury consents in contrast are twice their 3,500 20 year average at 7,300 with numbers ahead 27% last year and 43% in 2013. As for the rest of the country consent issuance is below the 20 year 11,200 average at 9,700 with growth of only 5% last year and 12% in 2013. Outside of our two biggest cities residential construction is below par and the pace of improvement has slowed not just over 2014 but in recent months as well.





For businesses involved in the residential construction sector activity levels are likely to be good over the next three years because of the obvious factor driving Christchurch activity, and the fact that it will take a generation perhaps for construction to "catch-up" in Auckland. But as the receivership of one building company this month shows us, just because you are growing, just because you have a good orders list does not mean you have a viable financial business model. Christchurch has produced many business failures despite the building surge because of poor ability to manage cash flows and lack of capital. Too many firms appear to confuse bank lending with capital. They are not the same and from a bank's point of view with knowledge that building booms usually turn to bust rather than gently taper off, job orders are a future not reached yet and not guaranteed profits against which they can take security for an extra loan right now.

House Prices

We start this final section of the NZO with two graphs. The first shows average house sales price changes in the three months to January compared with a year earlier. Auckland leads at 12% followed by Central Otago Lakes (Queenstown, Wanaka...) at 7%, with falls of 4% for Nelson and 2% for Taranaki. The second graph shows house price changes since the broad low-point in the GFC-induced cycle of early-2009. Auckland prices have risen by 57%, Canterbury 41%, then outside our two NZ agglomerations there is a very different picture. All regions have recorded rises but for Manawatu-Wanganui the six year gain is just 3% (estimated 1.4% population growth since 2009), Northland 7% with 5% population growth (interesting dynamic of minimal growth yet population rising), Southland 8% with 2.8% population growth and Wellington and Nelson at 11% and 12% respectively and population changes of 3.3% and 7.6%. Auckland's population change has been 7.4%.

Personally speaking, were I a person who actively invested in residential property, I would be getting interested in regions which have had minimal price growth since 2009 yet enjoyed reasonable population growth, and for which population projections from Statistics NZ look reasonable. In fact lets make this exercise easy for all you people thinking about seeking higher yield with capital gain potential outside Auckland. The following table shows regional population growth since 2009 and population growth projections (soon to be updated however by Statistics NZ). Have fun and good luck.

	Population growth since 2009	**Projected population growth 2011-2031**
Northland	4.9%	9.6%
Auckland	7.4	32.5
Waikato	6.0	13.7
Bay of Plenty	3.5	14.5
Gisborne	1.7	1.5
Hawkes Bay	2.8	3.8
Taranaki	5.0	1.5
Manawatu-Wanganui	1.4	3.2
Wellington	3.3	10.6
Tasman	4.7	12.3
Nelson	7.6	10.6
Marlborough	0.9	8.5
West Coast	0.3	1.2
Canterbury	2.4	15.8
Otago	4.1	11.2
Southland	2.8	-0.3
North Island	5.4	19.7
South Island	3.0	12.2
NZ	**4.8**	**17.9**

We all know that affordability of housing in Auckland is very poor and mid-January brought the 11th Demographia International Affordability report ranking Auckland as ninth least affordable city out of 378 around the world. http://www.demographia.com/

There is nothing new in the report and it merely confirms what we have been pointing out since at least 2008 when we warned that the GFC would not cause a collapse in NZ house prices. In Auckland there is a housing shortage and it is getting worse every day, especially with the recent surge in population growth. We have long concluded that the imbalance between supply and demand at current prices would cause prices to rise and that is exactly what is happening. Because the imbalance is still worsening prices will keep rising and from an investor's point of view with young buyers forced to rent longer by the loan to value rules, strong immigration, plus very low borrowing costs the attraction of investing in the Auckland market has long been obvious. It remains so.

We don't know by how much Auckland house prices will rise this year. We have never seen anyone produce a model which allows accurate predictions to be made. But something akin to last year's near 14% rise seems a reasonable expectation.

What about the rest of the country? A shortage continues in Christchurch so prices will continue to rise there. Shortages do not exist in most other parts of the country except maybe the Central Otago Lakes district which is enjoying good population growth. So outside the two agglomerations price growth will be much muted. But try to get a feel for how people will react to falling yields in Auckland, and falling expectations for simple interest rate returns on term deposits. People approaching retirement or in it will be thinking more and more about finding yield away from banks and this will spur increased demand for investment property – especially as group investment vehicles are likely to become more prevalent.

In addition lets leave you with one thought which applies not just to housing investment but businesses across a wide spectrum. Although there is a wave of obesity-related diseases to hit the health system and curtail life expectancy for those affected, for the rest expectations of longevity are rising. As people expect to live longer in retirement and be more active how will that affect the things which they do and buy? At a minimum it suggests better demand for investment property. But it also implies higher demand for voluntary medical procedures, house redesign and modification, and so on as people anticipate being able to reap the benefits of such things over a longer period of time than before. As people say less and less that there is "no point it doing that as I'll be dead soon" there could be radical changes in demand for business goods and services. Food for thought.

Resources

Business Mentors NZ
Well respected mentoring service for NZ SMEs.
http://www.businessmentors.org.nz

The Icehouse
Provider of business growth workshops and programmes
https://www.theicehouse.co.nz/

NZ Business Demography Statistics
Detailed annual data on NZ businesses by industry, employment etc.
http://www.stats.govt.nz/browse_for_stats/businesses/business_characteristics/BusinessDemographyStatistics_HOTPFeb14.aspx

The Small Business Sector Report 2014
Detailed analysis of firms with fewer than 20 employees, so doesn't really capture medium-sized enterprises of up to 100 employees.
www.mbie.govt.nz/.../the-small-business-sector-report-2014.pdf

NZ SME Business Network
"The goal is provide support to SME Business owners and give them a voice to influence national policies that directly impact them."
https://www.facebook.com/pages/New-Zealand-SME-Business-Network/193512437408817
https://www.linkedin.com/groups/New-Zealand-SME-Business-Network-4202444/about

Small Enterprise Association of Australia & New Zealand
Academic research group operational since 1987.
http://www.seaanz.org

MYOB Business Monitor
"It's a nationwide survey of over a thousand business owners of sole trading, micro, small and medium sized businesses from across all industry groups."
http://myob.co.nz/myob/backing-kiwi-business/myob-business-monitor-1257829565839

Asia-Pacific Small Business Survey
Run annually by CPA Australia, latest from November 2014.
http://www.cpaaustralia.com.au/professional-resources/business-management/small-business/asia-pacific-small-business-survey

Small Business Voice
"The Small Business Voice is an incorporated Charitable Trust set up to support and represent SMEs throughout New Zealand, formerly the Independent Business Foundation."
http://www.smallbusinessvoice.co.nz/

SME Research Hub
Nothing here for business operators as such, instead a still very undeveloped website for researchers into SMEs.
https://www.gen.org.nz/tiki-index.php?page=Welcome+to+the+SME+Research+Hub

Growing New Zealand Businesses
"Growing New Zealand Businesses (GNZB) is an ambitious research programme that seeks to systematically explore growth and innovation issues in New Zealand small and medium enterprises (SMEs)."
University of Auckland Business School
http://www.business.auckland.ac.nz/en/about/our-research/bs-research-groups/growing-new-zealand-businesses-gnzb/our-research-group-3.html

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Economic Overview

February 2015

The good oil

Dominick Stephens
Chief Economist

Note from Dominick

As we developed this *Economic Overview*, two powerful themes pervaded our thinking – plunging global oil prices and the risk of drought in New Zealand.

Cheap oil has left an unmistakable footprint on almost every page of the document. Global economic growth will get a shot in the arm, although there are risks. As cheap oil depresses global inflation, many central banks are easing monetary policy, and that has turned the world of exchange rates on its head.

The New Zealand Economy section details our thinking on the boost consumers are going to get from lower petrol prices. Of course, cheap oil has also demolished any sign of inflation in New Zealand, leading to a sharp drop in fixed interest rates. That will only fuel the housing market fire, marking out another channel through which cheap oil will boost GDP growth over the coming couple of years.

While cheap oil is a clear positive for New Zealand, the risk of drought is a clear negative. The Agricultural Outlook section explains why this year's spell of dry weather will have an even larger impact on milk production than either of the past two droughts, not to mention the damage that will be suffered in other agricultural sectors.

We are bracing for low quarterly GDP growth in March and June 2015. The attendant spell of weak data will no doubt spook markets into pricing more OCR cuts, pushing swap rates even lower.

The RBNZ is most likely to keep the OCR unchanged at 3.5% all year – but we acknowledge that the balance of risks this year is tilted firmly in the direction of OCR cuts, not hikes. With the OCR pinned at 3.5% or lower, and house prices rising sharply, the Reserve Bank will be left with only one viable strategy – we expect macroprudential policy to be tightened at some point this year.

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New Zealand Economy

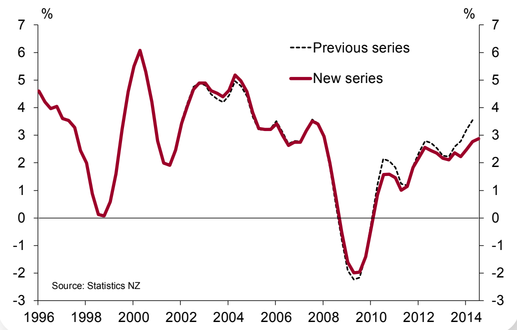
A plus and a minus

Dry weather and low milk prices will weigh on GDP in the near term. However, sharply lower oil prices will provide a potent boost to an economy that was already experiencing a robust upswing. We've revised up our forecast of total growth over the next two years, but with the peak now coming a year later in 2016 and with a continued skew towards domestic demand over exports.

The New Zealand economy maintained a robust pace of growth over the course of 2014, a departure from the somewhat stop-start nature of growth over the previous few years. The construction sector made the single largest contribution to growth, as the Christchurch rebuild continues to ramp up. But it's been joined by a number of positive factors ranging from migration-led population growth, to low interest rates, rising house prices, and low inflation which has supported real growth in household spending.

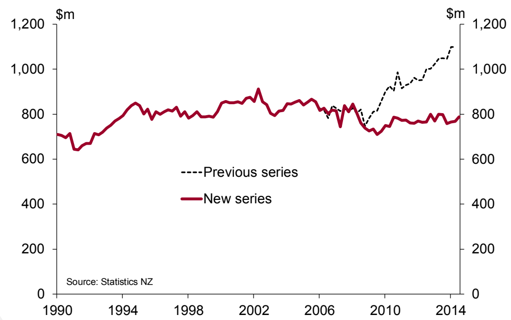
That said, recent revisions to the GDP data paint a slightly less emphatic picture of the pace of growth since the economy emerged from recession a few years ago. Previously, annual average GDP growth was reported to have accelerated to 3.5% by mid-2014, whereas the new figures show that annual growth has yet to achieve a 3% pace in this cycle.

Figure 1: GDP growth, annual average



While these revisions were an unwelcome surprise, they go some way to resolving the mystery of why New Zealand has been experiencing such low inflation despite strong growth in activity – the latter simply wasn't as strong as thought. Moreover, a look at the details shows that the downward revision to growth largely occurred in one sector (petroleum and chemical manufacturing) – which means that the revisions have little bearing on the underlying trends in the economy.

Figure 2: Petroleum and chemical manufacturing GDP



Recent economic data gives the sense of a collective holding of breath ahead of last September's election, especially in but not limited to the housing market. While GDP rose by a greater than expected 1% in the September quarter, this was inflated by a temporary surge in oil exploration and a sharp rise in milk production that will soon go into reverse. The underlying picture was a little more subdued, with the service sectors that make up 70% of the economy recording growth of just 0.3%. House sales were broadly flat, and building consents slowed sharply in September.

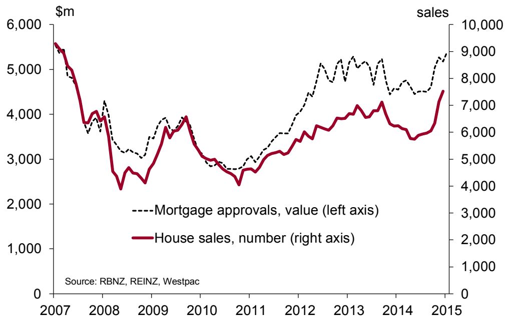
We were surprised to see such a pronounced effect compared to previous elections, but it fits with this election being unusually contentious – a change of government would have meant a less favourable tax treatment for property investment. With that risk out of the way, the growth pulse appears to have improved again in late 2014. Business confidence showed a modest rebound, house sales and building consents have risen strongly, manufacturing and service sector indicators have remained strong, and retail spending growth has remained perky (after accounting for falling prices).

We expect GDP to rise by another 1% in the December quarter, even if some of the factors that boosted September quarter growth are likely to reverse next time.

Off the leash

The housing market has exploded out of the blocks in the last few months. Seasonally adjusted house sales jumped 24% in the last three months of 2014.
By December, the pace of house sales had risen above the previous peak seen in September 2013, just before the Reserve Bank imposed a cap on the share of home loans with a loan-to-value ratio (LVR) over 80%.
House prices have recently shown a similar resurgence, particularly in Auckland where double-digit annual house price growth has resumed. (In contrast, Christchurch house prices are showing some signs of moderation, as repairs and rebuilds gradually restore the housing stock.)

Figure 3: Housing market resurgent



The overseas experience with high-LVR restrictions has been that the impact tends to peak after about six months and subsequently fade, and New Zealand's own experience is looking no different. The fading effect of LVR restrictions, combined with falling fixed-term mortgage rates and a surge in population growth, created a high degree of pent-up demand, ready to be unleashed once election uncertainties were out of the way.

With cheap petrol and an even greater decline in fixed mortgage rates now in the mix, it's not hard to imagine what is going to happen to the housing market – we forecast nationwide house price inflation to accelerate to 7.5% this year, concentrated in Auckland. There has been a surge in Auckland building activity recently, but supply is not going to come to the rescue of house prices any time soon. Our calculations suggest that the population surge has far outweighed the boost to building, meaning Auckland's construction shortfall is more acute than ever.

A hot housing market, but subdued general inflation, is precisely the environment for which the Reserve Bank's suite of macroprudential tools was intended. Our forecasts incorporate a further tightening of macroprudential policy by the second half of this year – though we'll refrain from trying to predict what form it will take, as there's a great deal of scope for variations even within the existing toolkit.

Oil's well that ends well

Our view remains that the New Zealand economy will continue to register above-trend growth over the next two years, gradually applying inflation pressure and requiring higher interest rates. The profile of the Christchurch rebuild – particularly in terms of when the work peaks and starts to run down – is a critical part of this view, and we explore it in more detail in the Construction Spending Outlook section on page 4. The New Zealand economy's relative strength compared to our main trading partners, and a still-high exchange rate, mean that growth is expected to remain two-speed in nature, with domestic growth outstripping exports.

Two major recent developments have altered the profile of our forecasts for the next couple of years. The first is the steep fall in world oil prices (the factors behind this are detailed in the Global Economy section); the second is the rapid emergence of drought conditions in many parts of the country (the Agricultural Outlook section details the specific impacts on that sector).

Lower oil prices have a profound, and unambiguously positive, impact on oil-consuming countries such as New Zealand. The direct effect is that lower fuel prices will leave more money in consumers' pockets, which can then be spent elsewhere; our calculations suggest that cheaper fuel will boost private consumption by around 0.8 percentage points over late 2014 and early 2015. It also lowers the cost of doing business, particularly for anything involving transport, resulting in lower prices (or fewer price increases) for a range of goods and services, thus stimulating extra spending. Meanwhile, lower inflation (at least in the near term) allows interest rates to remain low for even longer, which encourages borrowing and investment.

The D word

We estimate that the emerging drought will take about half a percentage point out of GDP growth in the near term, while adding to growth in late 2015 and early 2016 as farm production returns to more normal levels. Consequently, we now see GDP growth reaching 3.6%yr in 2016, a later but stronger peak than in our previous forecasts.

The recent run of hot, dry weather has required a rapid reassessment, with Fonterra now expecting full-season milk collection to be down 3.3% on the previous year.
To put that in context, the short but severe drought in 2010 led to a 2% drop in full-season production, while the prolonged drought of 2007-08 saw a 4.3% drop. So this year's drought could potentially be one of the harshest in recent history – at least in terms of dairy production.
Of course the ultimate impact is highly dependent on the weather over the next month or two, but we see Fonterra's estimate as a plausible central case.

Figure 4: Milk production, seasonally adjusted

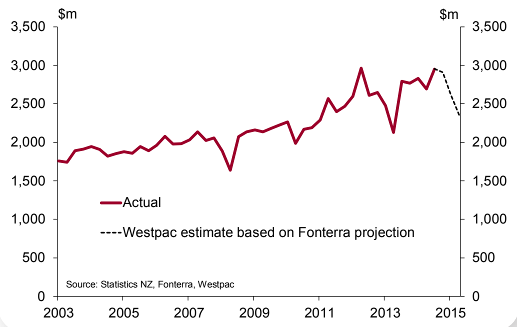
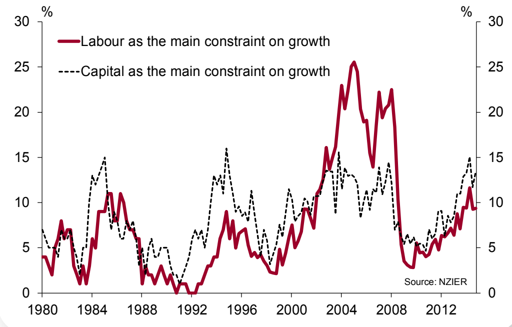


Figure 5: Surveyed constraints on business growth



The frequency of droughts in recent years means that the effects on the wider economy are easy to anticipate. Milk production is likely to fall sharply in the first two quarters of this year, before recovering in the second half. The earlier slaughter of sheep and cattle will actually boost GDP in the March quarter, but reduce it in the June quarter, with a net negative impact. We have assumed some second-round impact on household spending and business investment; however, history suggests that the propensity to spend out of farm income is fairly low, so these second-round effects tend to be quite small.

Overall, we expect GDP growth to slow to just 0.4% per quarter over the first half of 2015. That implies a spell of very weak economic data, which could further encourage markets to speculate on the possibility of OCR cuts.

Keeping the purse strings tight

The fiscal position is expected to remain a drag on the pace of growth. Last December, a continued shortfall in the tax take prompted the Government to forecast a later return to surplus, and to delay $1bn worth of the planned increases in the operational spending until 2017. We suspect that the delayed portion of 'spending' had been earmarked for tax cuts, which would have been phased in gradually. Hence, we've captured the change in spending plans by shaving back our household consumption forecasts a little for the next two years.

Workers in abundance

The labour market was one of the most notable laggards in the economy's recovery, but has now been recording consistent gains for over a year. While there are some indications that the labour market is starting to tip over into 'tight' territory, it remains substantially less of a constraint than what we saw in the mid-2000s boom – in contrast to other measures of capacity constraints, which are reaching significant levels.

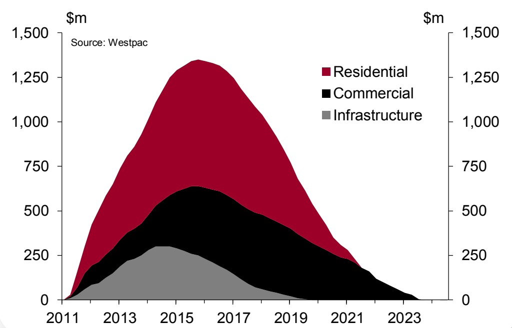
One major reason for this is that demand for workers has been met by stronger growth in the workforce. As we've detailed in previous issues, labour force participation has risen to record highs in New Zealand, particularly for older workers. In addition, net inward migration flows have continued to power ahead – we expect the annual net inflow to peak at a record 60,000 people later this year. We suspect this flow won't be stemmed significantly until the Australian jobs market shows some new signs of life.

The relatively slow reduction in unemployment in turn means that wage growth is expected to increase only gradually. Slow wage growth, at least in nominal terms, will be further underscored by very low headline inflation over the next year.

Over the hill

We expect that 2016 will mark the high point for New Zealand's economic growth for some time. The following years will see the level of quake-related building activity peak and then run down; net migration inflows will slow as the Australian jobs market starts to look relatively more appealing; and an eventual rise in interest rates will weigh on house prices. We're bracing for a marked economic slowdown by 2018 – Australia's recent experience, as the wave of investment in new mining projects has reached conclusion, is instructive in this regard.

Figure 6: Quake-related construction forecasts



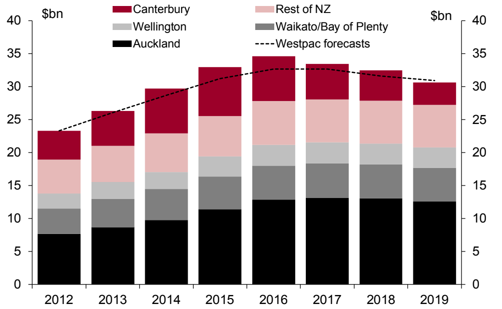
Special Topic

Construction Spending Outlook

Construction spending will be a key determinant of the strength in the domestic economy over the coming year. Strong growth in construction spending is expected over 2015 and 2016. Further ahead, although spending is expected to remain elevated, it will start to ease back.

A strong outlook for nationwide construction spending underpins our expectation of robust domestic growth over 2015 and 2016. Further ahead, there will be moderation in spending as the Canterbury rebuild begins to gradually wind down and population growth returns to more normal levels. This will contribute to slowing GDP growth. Nevertheless, the level of nationwide construction spending is expected remain elevated for several years, supported by activity in Auckland.

Figure 7: Westpac and industry forecast comparison



Source: NZ Building and Construction Productivity Partnership, Westpac

Canterbury rebuild

The anticipated strength in construction activity is a result of several significant work streams. First is the continuing reconstruction work that is occurring in Canterbury. We estimate that the value of reconstruction work will be around $35bn (in 2012 dollars). This is lower than the government's $40bn estimate, reflecting the fact that there have been significant construction cost increases since plans for the rebuild were initially developed, with more expected over the coming years. As a result of these cost increases, it is likely that some of the planned projects will not be economically viable, particularly in the non-residential sphere. Nevertheless, reconstruction still represents a significant impulse for the building sector, equivalent to around 15% of annual GDP.

At the start of 2015, around $10bn of reconstruction work had been completed. Further increases in spending are expected over the coming year, consistent with reports from insurers and government agencies that increasing numbers of projects are moving into design and construction, and strong increases in building consent numbers.

Reconstruction activity is projected to peak over 2015/16, and then start gradually easing back from 2017. This profile is consistent with announced plans for public sector spending. It also reflects the increases in costs of building noted above, as well as very low unemployment in Canterbury, which combined will limit the potential for continued increases in reconstruction activity. Average residential construction costs in Canterbury have risen by around 30% since 2011, pushing them to higher levels than in Auckland. That was in the context of subdued nationwide activity. Now, with construction spending increasing in other regions, cost pressures are expected to become more pronounced.

Auckland housing market

The second work stream that is expected to underpin strength in construction spending is residential construction in Auckland. Auckland currently has a shortage of housing following low levels of home construction in recent years, as well as strong population growth. Our research indicates that population needs will require around 9,000 new homes to be built in Auckland per year for a number of years. This would require a sustained increase in construction of around 20% from current levels.

Non-residential construction

The final stream of construction spending expected over the coming years relates to non-residential projects. Much of this relates to planned infrastructure spending by both central and local government, with figures from the Treasury's National Infrastructure Unit signalling significant spending in the areas of roading, water services, and social assets. Spending is expected to be concentrated in Auckland and Canterbury, but it will be spread across the country.

Business surveys such as the *QSBO* also point to increases in private non-residential construction over the coming years. This is being encouraged by strength in domestic demand, firm levels of business confidence, and low interest rates. Increases in the construction of both offices and industrial buildings is expected.

Agricultural Outlook

It never rains but it pours

The dairying sector now faces a double whammy from both low milk prices and dry weather – indeed, the interaction between the two could have a potent impact on milk production. Droughts tend to depress meat prices but boost dairy prices, although global market conditions mean that the latter effect may be less dramatic than on previous occasions.

Toward the end of last year we noted that there was a heightened risk of an El Niño weather pattern developing this summer, which is typically associated with severe droughts in New Zealand. The subsequent weeks of hot, dry weather have brought this risk into stark focus. While there has been no official drought declaration at the time of writing, it's clear that farmers are already having to make decisions that will have a negative impact on farm output for this year.

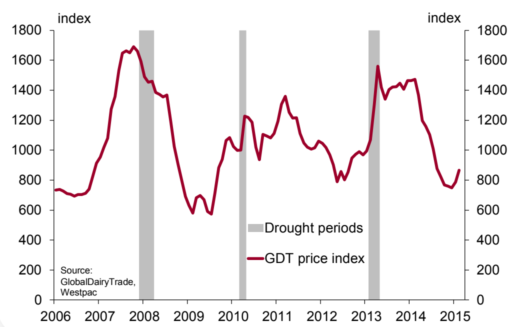
Dry weather is having a particularly potent impact on the dairying industry. The farmgate milk price for the current season is expected to be the lowest since the 2008/09 season, and below the breakeven level for a number of dairy farmers. With prices low, farmers have limited scope to bring in additional feed in order to maintain milk production, instead relying on their own stores of feed and rainfall to spur on grass growth. As a result, milk production is even more vulnerable than usual to drought. Fonterra expects full-season milk production to be down 3.3% on the previous year.

New Zealand is the world's biggest exporter of dairy products, so any disruption to supply from here can have a significant impact on the global market. Indeed, the last few droughts saw world dairy prices soar to new highs, as milk supply from the rest of the world was unable to adjust quickly enough. Supply conditions are not as stretched this time around – milk production in the Northern Hemisphere has grown strongly over the last year, and Russia's import ban has put a substantial amount of product back on the world market. But that only argues against prices returning to their previous highs; it doesn't negate the point that prices rise when supply falls short.

We have revised up our forecast of Fonterra's farmgate milk price this season to $5.00/kg – still low relative to recent history, but taking some of the financial strain off those dairy farmers that are able to maintain production. We expect the milk price to rise to a slightly above-average $6.40/kg for next season.

In contrast, drought is an unambiguous negative for meat producers, as livestock are sent to slaughter earlier than usual and in less than desirable condition. Lamb and beef prices are likely to remain under downward pressure in coming months.

Figure 8: World dairy prices and New Zealand droughts



Commodity price monitor

Sector	Trend	Current level[1]	Next 6 months
Forestry	Reduced harvesting has helped to align supply with softer world demand. Demand from the local building industry remains strong.	Above Average	↗
Wool	Competition from oil-derived synthetics likely to prove the biggest challenge this year.	Above Average	↘
Dairy	Signs that supply and demand are coming into better balance as Chinese buyers run down excess stocks. Drought in NZ will further boost prices from current low levels.	Low	↑
Lamb	Early slaughter due to drought is likely to depress prices in early 2015.	Average	↘
Beef	Early slaughter due to drought will depress local prices. US beef supply remains tight, supporting the longer-term uptrend in prices.	Above Average	↘

[1] NZD prices adjusted for inflation, deviation from 10yr average.

Global Economy
Oiling the machine

The global slowdown has deepened and fresh risks have emerged. However, cheap oil, bolder central banks, and the ongoing US recovery leave us cautiously optimistic that things will improve later this year.

The global bears have had plenty to feed on in the last three months. Japan has fallen back into recession, Europe is navigating the shoals of deflation, Greece and the Russian crisis, and China has yet to emerge from its slowdown. Commodity exporters, including Australia, have struggled.

However, there has also been a fair share of good news. Plunging oil prices are spreading the spoils of North American oil production to global consumers. The Chinese government and European Central Bank have recognised the need for more aggressive policy stimulus. And the US economy has continued to heal.

Taken together, these three developments give us confidence that the global economy has a good chance of weathering the current storms. We continue to expect a modest pickup in global growth by the second half of the year, firming up in 2016.

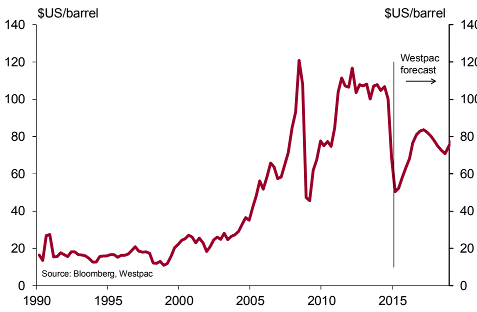
More gas in the tank

The single biggest global development of the last three months has been the halving of crude oil prices. As we detail in the rest of this *Economic Overview*, for New Zealand this will have an unambiguously positive effect on consumers' purchasing power and economic growth. At the global level the net impact should also be positive, though there will be losers (net oil producers like Russia and Canada) as well as winners (net oil consumers like New Zealand and Japan).

Some might argue that falling oil prices are just another symptom of the global malaise. However, we would counter that oil prices have fallen much more steeply than other commodity prices, reflecting oil-specific factors – the significant lift in unconventional supplies in the US and Canada, a recent recovery in oil output in the likes of Libya and Iraq, and a move to improve energy efficiency among consumers. To that extent, the global economy has experienced a genuine positive oil 'shock', which has reduced global production and living costs, and will give global growth a shot in the arm.

That said, oil may not stay this cheap for long. The unconventional supplies which have largely driven the lift in global oil production are also likely to be more reactive to any price declines than traditional sources. Fracking requires regular drilling just to maintain production at existing levels, and the number of operational drilling rigs in the US is already shrinking. As US producers continue to retrench and energy demand starts to rise, we expect oil prices to stage a fairly rapid recovery.

Figure 9: Dubai oil price



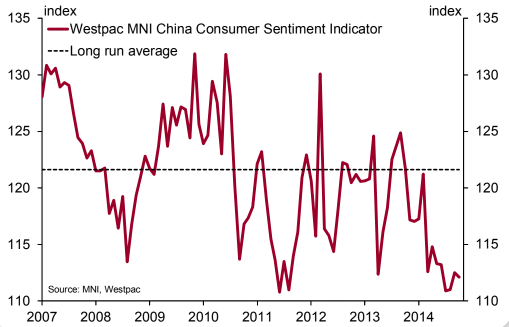
Better late than never

Of course, lower oil prices also come with risks. One concern is that plunging energy prices will entrench expectations of deflation in Europe and Japan. That would be a nightmare scenario for the European Central Bank and Bank of Japan, pushing up real interest rates when the economy is already weak.

Then there is Russia. According to the Russian central bank, more than $100bn of Russian foreign-currency debt is due for renewal this year. With a rouble that could go anywhere, Russian corporates shut out from international capital markets by sanctions, and uncertainty around how liquid Russia's $400bn-odd of foreign reserves really are, Russia's situation remains combustible to say the least.

Fortunately, the mix of growth concerns and falling inflation has emboldened central banks' and governments' stimulus efforts. The Chinese policy stance has become much more unambiguously pro-growth, the Bank of Japan has embarked on a fresh round of quantitative easing, the European

Figure 10: Chinese consumer confidence



Central Bank has belatedly come to the party, and central banks from the Bank of Canada to the Reserve Bank of India have surprised markets with rate cuts.

It will take time for these measures to affect economic activity. Their impact will be muted by earlier fiscal austerity, risk averse households and banks, and (in China) a stock overhang in the housing market and the continuing reverberations of the anti-corruption drive.

However, the impact will show through. Indeed, in China, the housing market and consumer sentiment have already sprouted the greenest of green shoots. And in the interim, the Bank of Japan's and ECB's easing measures have given Japanese and European exporters a much-needed profit buffer to absorb any challenges ahead, via plunging exchange rates.

The US is still an engine of growth

While US GDP growth remains volatile, the underlying trend has clearly been positive. Crucially, consumer demand has firmed, helped by cheap credit and Obamacare, as well as a genuine firming in the labour market. US unemployment is now falling not because people are leaving the workforce, but because of faster jobs growth.

The US story is still far from uniformly rosy. The housing market recovery remains slow, and businesses are reluctant to invest – a trend which the stronger US dollar and retrenchment in the energy sector could well exacerbate. But it's significant that the Fed has kept its eye firmly on eventual rate hikes. Our central case continues to be that the Fed will actually start to move in September, but if jobs continue to grow at their recent rapid pace the odds could well start to favour June.

While the US recovery is now conventional wisdom, its importance for the global economy is not. In our view, stronger US growth will make a major difference not just to Chinese exporters, but to the Chinese economy in general. China remains the world's biggest exporter of manufactured goods, and 17% of China's gross value added comes from the export sector.

Australia – two steps back

The headwinds faced by the Australian economy have gathered force in recent months. The economy grew much more slowly than expected in the September quarter, particularly outside New South Wales. Since then, the loss of economic momentum – in large part the result of a continued pull-back in mining investment and public spending – has been compounded by further sharp falls in iron ore prices and a continued slide in consumer confidence.

In response the RBA cut its cash rate at its February meeting. We expect a follow-up cut in March, and a return to higher interest rates looks unlikely until 2016, when stronger global growth is well-entrenched and the US Fed's tightening cycle is in full flow. A moderation in house price inflation in recent months, as well as APRA's recent moves to beef up regulatory scrutiny of investor lending, should lessen any concerns within the RBA that lower interest rates might stimulate the housing market.

Economic forecasts (calendar years)

Real GDP %yr	2011	2012	2013	2014f	2015f	2016f
New Zealand	1.8	2.4	2.2	3.3	2.9	3.6
Australia	2.7	3.6	2.1	2.7	2.7	3.5
China	9.3	7.7	7.7	7.4	7.3	7.5
United States	1.6	2.3	2.2	2.4	2.7	3.2
Japan	-0.3	1.8	1.6	0.4	1.2	1.6
East Asia ex China	4.5	4.5	4.3	4.1	4.8	5.8
India	7.7	4.8	4.7	5.4	6.6	8.0
Euro zone	1.6	-0.6	-0.4	0.7	0.9	1.0
United Kingdom	1.1	0.3	1.7	2.7	2.5	2.7
NZ trading partners	**3.6**	**3.7**	**3.6**	**3.8**	**3.9**	**4.4**
World	**4.1**	**3.4**	**3.3**	**3.2**	**3.5**	**4.4**

Forecasts finalised 4 February 2015

Inflation and Interest Rates

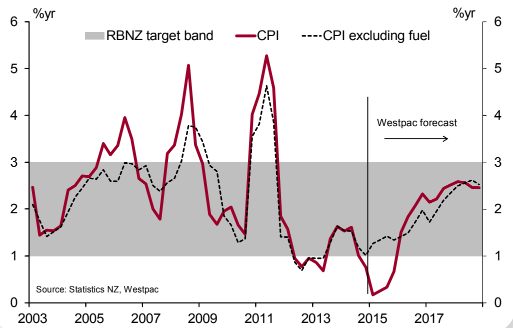
Hold, hold, hold…

Sharp falls in oil prices combined with more generalised softness in prices is likely to result in inflation lingering below the RBNZ's target band through 2015. Despite the firm outlook for domestic demand, this softness in headline inflation will keep OCR hikes off the table for some time, and there is a risk that rates could go lower in the near term.

Inflation to remain low over 2015…

At the start of last year annual headline inflation was 1.5%. By the end of the year, it had dropped to just 0.8%, and over the coming months it will drop sharply lower. We expect that the annual rate of inflation will fall to 0.2% in the March quarter - its lowest level in well over a decade – and that headline inflation will remain below the RBNZ's 1% to 3% target band through all of 2015.

Figure 11: CPI inflation forecasts

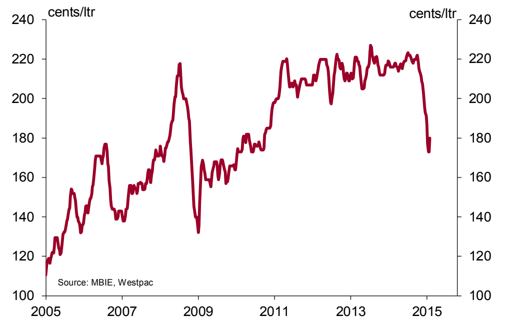


…as a result of low costs…

This rapid decline in inflation is, for the most part, a result of sharp falls in the international price of oil. Global crude oil prices have fallen by more than 50% since mid-2014, pushing nationwide pump prices down to their lowest level since 2010. This is already flowing through to lower costs for households. It will also dampen inflation more generally due to the effect on businesses' costs of production and transport, both domestically and offshore.

But low inflation is not due to oil price falls alone. Inflation in New Zealand has been surprisingly subdued for several years now. Looking through the range of 'special' and one-off factors that frequently push quarterly inflation up and down, low inflation in New Zealand has mainly been a result of softness in cost pressures. In particular, the gradual recovery in the global economy and lingering strength in the NZD has meant that the cost of imported goods, even excluding oil, has remained low. For many imported goods, softness in prices has been reinforced by increased competition stemming from the rise of online sales.

Figure 12: Petrol prices



There has also been softness in domestic cost pressures. Increases in labour costs have been limited as low consumer price inflation has moderated cost of living adjustments to wages. At the same time, strong population growth and increases in capital expenditure have added to the economy's productive capacity, allowing the economy to grow without a significant increase in inflation.

The notable exception to this pattern is the construction sector, where wages and costs have been rising more rapidly. Unsurprisingly, increases in construction costs have been strongest in Auckland and Canterbury. And with a strengthening outlook for construction demand in both of these regions, as well as more generally, construction cost inflation is expected to accelerate over the coming years.

…rather than weak demand

New Zealand is not the only economy currently confronting low inflation. However, New Zealand is in a very different position from economies such as the euro area that are facing the spectre of deflation. In those economies, much of the weakness in inflation is a result of weakness in demand. In contrast, the New Zealand economy has been expanding at a solid pace, and low inflation will only reinforce that.

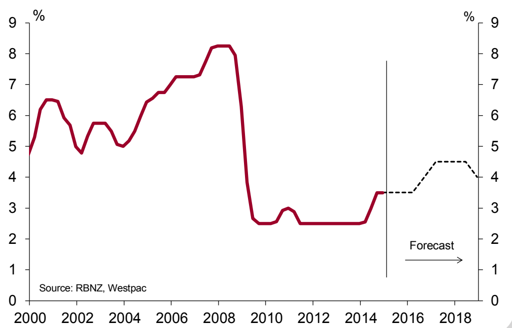
OCR to remain on hold through 2015...

Although inflation is below the RBNZ's target band, we expect the OCR to remain on hold for some time. The RBNZ looks through near-term weakness in inflation associated with volatile items such as oil. Instead, it focuses on longer-term drivers of future inflation. This is because interest rate reductions can do little to offset the effects of declines in oil prices that have already occurred, and hence would have only a limited impact on near-term inflation. However, lower interest rates could super-charge the already strong housing market.

With the domestic economy expected to grow at a robust pace, underlying inflation (i.e. excluding petrol prices) will pick up over time. As a result, the OCR will need to eventually increase. But it's unlikely that the RBNZ will begin hiking until inflation is much closer to 2%, which we estimate will be June 2016.

However, pinpointing the exact timing of hikes right now is a bit of a red herring – the main point is that hikes are likely to be some way off. Furthermore, the eventual hiking cycle is expected to be relatively muted, with rates projected to peak at 4.5% – well below the levels seen during the mid-2000s construction boom. This is because, although inflation is expected to pick up from 2016, growth in the economy is expected to slow from 2017 as spending on the Canterbury rebuild begins to gradually ease back and population growth returns to more normal levels.

Figure 13: Westpac OCR forecast

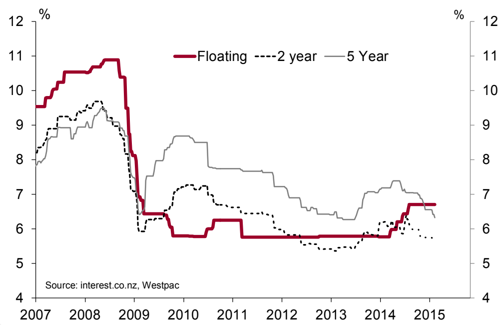


...though it could go lower in the near term...

While it is most likely the OCR will remain on hold through 2015, cuts are a possibility. Given the strong outlook for domestic activity, low headline inflation on its own won't be enough to prompt such a change in stance from the RBNZ. But if there is a significant disruption to economic or financial conditions, or a shock to confidence in the economy, cuts will definitely be on the RBNZ's radar. And in this respect, there are a few red flags on the horizon, including the risk of drought, further changes in offshore monetary policy that affect the NZD, and continued volatility in the global economy.

Financial markets have been moving to price in some risk of an OCR cut. Interest rate markets are currently pricing in around 20 basis points of cuts over 2015, which implies a 40% chance of two cuts. This has resulted in some further reductions in fixed-term mortgage rates.

Figure 14: Average advertised mortgage rates



...and the mix of policy settings could also change

Even lower mortgage rates at this juncture will be of particular concern for the RBNZ. The property market is already smoking, and lower mortgage rates will really be pouring fuel on the fire, raising concerns about longer term inflation and financial stability.

With low inflation keeping OCR hikes off the table for the next while, the RBNZ will be looking at whether it can make use of its other tools to limit the risk for the economy that a build-up of pressures in the housing market could pose. While the exact nature of any tools or regulations the RBNZ could introduce is not clear at this stage, we do expect to see some tightening in macro-prudential regulations this year.

Financial market forecasts
(end of quarter)

	CPI inflation	OCR	90-day bill	2 year swap	5 year swap
Mar-15	0.2	3.50	3.70	3.50	3.60
Jun-15	0.3	3.50	3.70	3.60	3.70
Sep-15	0.3	3.50	3.70	3.70	3.80
Dec-15	0.7	3.50	3.70	3.80	3.90
Mar-16	1.5	3.50	3.75	4.00	4.10
Jun-16	1.8	3.75	4.00	4.20	4.40
Sep-16	2.1	4.00	4.25	4.50	4.60
Dec-16	2.3	4.25	4.50	4.60	4.70
Mar-17	2.1	4.50	4.70	4.60	4.70
Jun-17	2.2	4.50	4.70	4.60	4.70

New Zealand Dollar

A mere pawn

The New Zealand dollar has been a mere pawn in a bigger game played out between the heavyweight currencies of the world. Although the NZD has fallen against the USD, it remains strong on a trade weighted basis. We anticipate more of the same for the time being, before a recovery in global risk sentiment sparks a rise in NZD/USD later this year.

The past six months have marked one of the sharpest declines in the New Zealand dollar's post-float history. After reaching an all-time high above 88 cents in July, by the time of writing the NZD/USD exchange rate had almost fallen to 72 cents. It is now barely accurate to describe the NZD/USD as "high" – the inflation-adjusted average, measured from 1986 to today, is 65 cents.

The key driver of this dramatic move has been US dollar strength following the end of the US quantitative easing (QE) programme, a run of robust US economic data, increasing speculation on the possibility of the Federal Funds Rate rising this year, and a bout of safe haven buying around the time that concerns about global growth emerged.

By contrast New Zealand has experienced a collapse in the global price of its main export product and a revision of monetary policy expectations that saw two-year swap rates fall by 70 basis points. Not to mention that the Reserve Bank has actively encouraged the fall in the New Zealand dollar through rhetoric and market intervention.

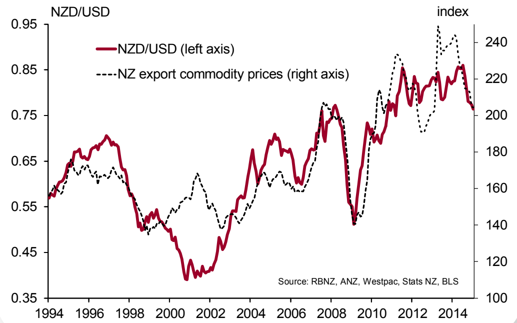
But in comparison to many other currencies, the New Zealand dollar has been resilient. The euro was routed following the ECB's decision to initiate its own QE programme. The Australian dollar has been under great pressure due to falling hard commodity prices and expectations of cash rate cuts. And the yen fell 16% late last year as Japanese monetary policy was eased further.

The New Zealand dollar appreciated against all of these currencies, such that the Trade Weighted Index (TWI) rose steadily from October until mid-January. And although the TWI lost those gains around the time when the possibility of New Zealand OCR cuts came to the fore of market thinking, the TWI is still high by historical standards. It is the high level of the TWI that will pervade the RBNZ's thinking about inflation, not the mundane level of the NZD against the USD.

Over the next few months we anticipate a continuation of these trends. There is no end in sight to the strong US dollar theme, and markets are not done with marking New Zealand monetary policy expectations lower, so the NZD/USD has room to fall further. But with the RBA embarking on cash rate reductions and the Greek sovereign debt saga kicking off again in Europe, one must surely expect the Kiwi to remain strong against the Australian dollar and the euro.

Further ahead, we anticipate a recovery in the NZD/USD. As explained in the Global Economy section, we expect cheap oil, stimulatory monetary policy, and strong US consumer demand to herald a renewed era of advancing global growth and strong risk sentiment from mid-2015 until late-2016. In such an environment the New Zealand dollar can be expected to benefit from improved risk sentiment, and from rising global dairy prices.

Figure 15: NZD and commodity prices, inflation-adjusted

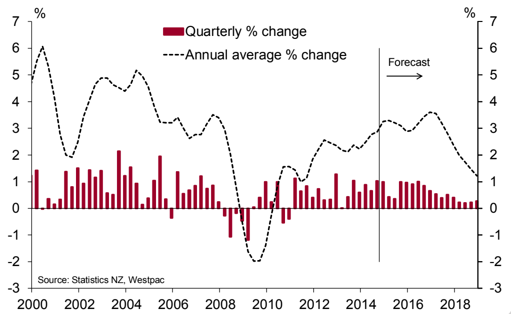


Exchange Rate Forecasts (end of quarter)

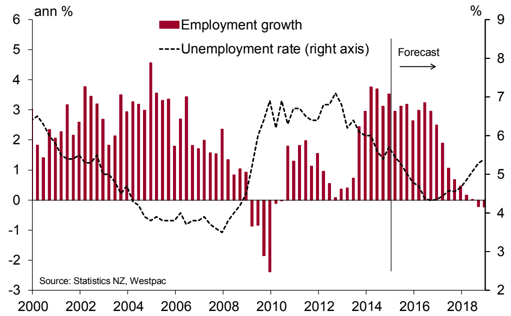
	NZD/ USD	NZD/ AUD	NZD/ EUR	NZD/ GBP	NZD/ JPY	TWI
Mar-15	0.71	0.95	0.63	0.48	83.9	75.3
Jun-15	0.73	0.95	0.64	0.48	87.6	76.3
Sep-15	0.74	0.95	0.64	0.47	90.3	77.1
Dec-15	0.75	0.95	0.65	0.47	93.0	77.9
Mar-16	0.77	0.95	0.66	0.47	95.5	79.2
Jun-16	0.79	0.94	0.66	0.47	98.8	80.1
Sep-16	0.80	0.94	0.66	0.46	100.8	80.7
Dec-16	0.79	0.92	0.65	0.45	100.3	79.3
Mar-17	0.78	0.90	0.63	0.43	95.2	77.3
Jun-17	0.74	0.88	0.63	0.42	90.3	74.8

Annual average %change	March years				Calendar years			
	2014	2015f	2016f	2017f	2013	2014f	2015f	2016f
GDP (production)	2.5	3.3	2.9	3.6	2.2	3.3	2.9	3.6
Private consumption	2.9	3.9	3.9	3.0	2.9	3.3	4.2	3.2
Government consumption	2.7	3.0	0.7	0.6	1.9	3.5	1.0	0.5
Residential investment	16.6	12.6	11.9	4.7	16.6	16.1	11.3	6.5
Business Investment	8.4	7.0	4.6	6.8	6.2	6.9	5.3	7.1
Stocks (% contribution)	0.2	0.1	-0.1	-0.1	0.1	0.1	-0.1	0.0
Exports	0.3	0.2	1.3	4.8	1.1	1.7	-0.3	4.6
Imports	8.0	7.4	4.7	3.7	6.3	7.8	5.0	4.5
Inflation (% annual)	1.5	0.2	1.5	2.1	1.6	0.8	0.7	2.3
Employment (% annual)	3.8	2.9	3.0	1.9	2.9	3.5	2.6	2.5
Unemployment rate (% s.a. end of period)	6.0	5.5	4.7	4.4	6.0	5.7	4.8	4.3
Labour cost index (all sectors, % annual)	1.6	1.8	1.8	2.0	1.6	1.8	1.8	1.9
Current account balance (% of GDP)	-2.6	-3.9	-5.0	-4.3	-3.3	-3.1	-5.0	-4.6
Terms of trade (% annual)	17.3	-4.4	1.6	1.1	20.2	-2.7	0.9	1.6
House prices (% annual)	7.9	6.6	5.7	0.5	9.2	4.7	7.5	1.5
90 day bank bill (end of period)	2.78	3.70	3.75	4.70	2.65	3.64	3.70	4.50
5 year swap (end of period)	4.57	3.60	4.10	4.70	4.49	4.16	3.90	4.70
TWI (end of period)	78.7	75.3	79.2	77.3	77.3	77.5	77.9	79.3
NZD/USD (end of period)	0.84	0.71	0.77	0.78	0.83	0.78	0.75	0.79
NZD/AUD (end of period)	0.93	0.95	0.95	0.90	0.89	0.91	0.95	0.92
NZD/EUR (end of period)	0.61	0.63	0.66	0.63	0.61	0.63	0.65	0.65
NZD/GBP (end of period)	0.51	0.48	0.47	0.43	0.51	0.49	0.47	0.45

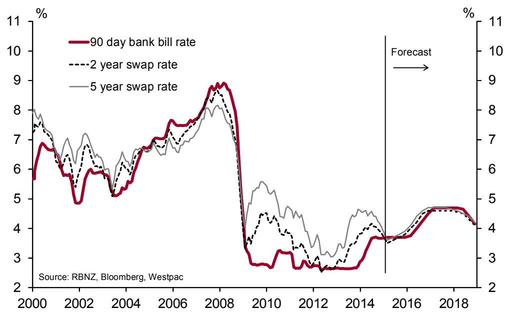
New Zealand GDP growth



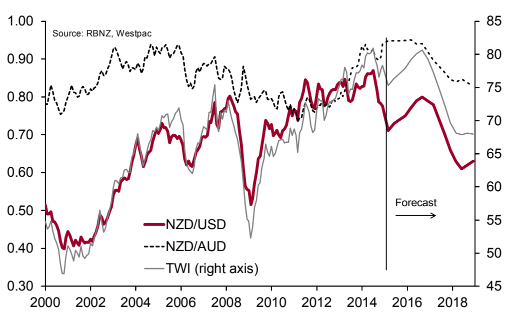
New Zealand employment and unemployment



90 day bank bill, 2 year and 5 year swap rates



NZD/USD, NZD/AUD and TWI



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