
Investment monitoring

report & analysis to 31 May 2016

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Objectives

The investment policy objectives of the Trust are to achieve a growing level of income to fund the budgeted grants and operating costs each year and grow the capital base over the long term, to protect the capital and grants against the impact of inflation.

The risks to the investment policy objectives are 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. \$6.7m is budgeted for 2016/ 17.

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.

31 May 2016

Overall Trust return (%)

	Month	Year (2 months)
Income return	0.30%	1.03%
Market movement	0.89%	1.25%
Total return	1.19%	2.29%

Summarised accounts (\$)

Assets at start	167,209,210	165,961,700
Net cash flow	(340,290)	(891,317)
Income received/ (paid)	508,014	1,702,593
Growth gains/ (losses)	1,480,428	2,084,386
Total investment gains/ (losses)	1,988,442	3,786,979
Assets at end	168,857,362	168,857,362
Income sector assets at end		63,001,720 (37.3%)
Growth sector assets at end		105,855,642 (62.7%)

Objectives

Liquidity



Income



Growth



Strategy



Trust performance



Manager performance

Cash



NZ bonds



Overseas
bonds



Total listed
shares



Elevation
Capital



Forsyth
Bair



31 May 2016

Summary

Month

In respect of the investment results to 31 May 2016, we note:

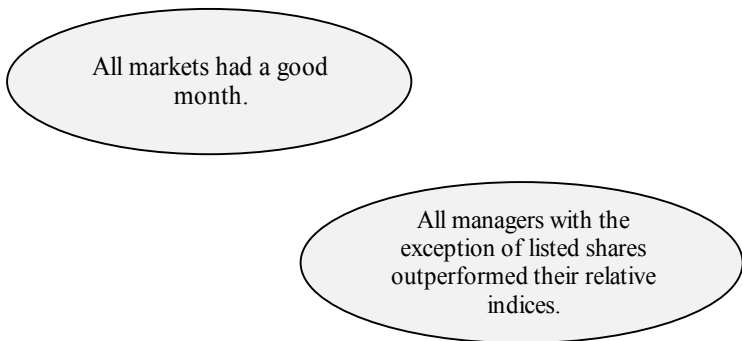
- The asset value is \$168,857,362, up \$1.65m over the month [Last month: \$167,209,210].
- The portfolio generated investment income of \$508,014 [vs monthly budget: \$620,860].
- The overall investment return for the month was positive 1.19%, i.e. \$1,988,442.

Strategy

- The investment allocation to each sector is within $\pm 3.5\%$ of the benchmark asset allocation.
- Listed shares is 3.5% below the benchmark, and Cash is 2.0% above the benchmark.
- The latest hedging contract position of overseas shares was: 50% hedged to USD, EUR and UKP, 0% to AUD and Yen.

Market movements

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



All markets had a good month.

All managers with the exception of listed shares outperformed their relative indices.

Investment managers' performance (relative to market indices)

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

Year (since 1 April 2016)

- The investment portfolio has generated \$1,702,593 of income and experienced \$2,084,386 of market movements since 1 April 2016. The total return has been \$3,786,979 or 2.29% since 1 April 2016. The income level is above the budget.

Current issues

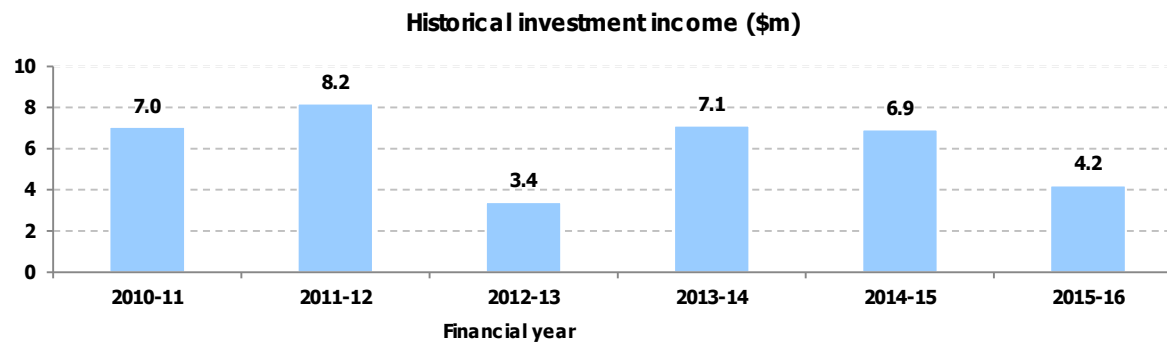
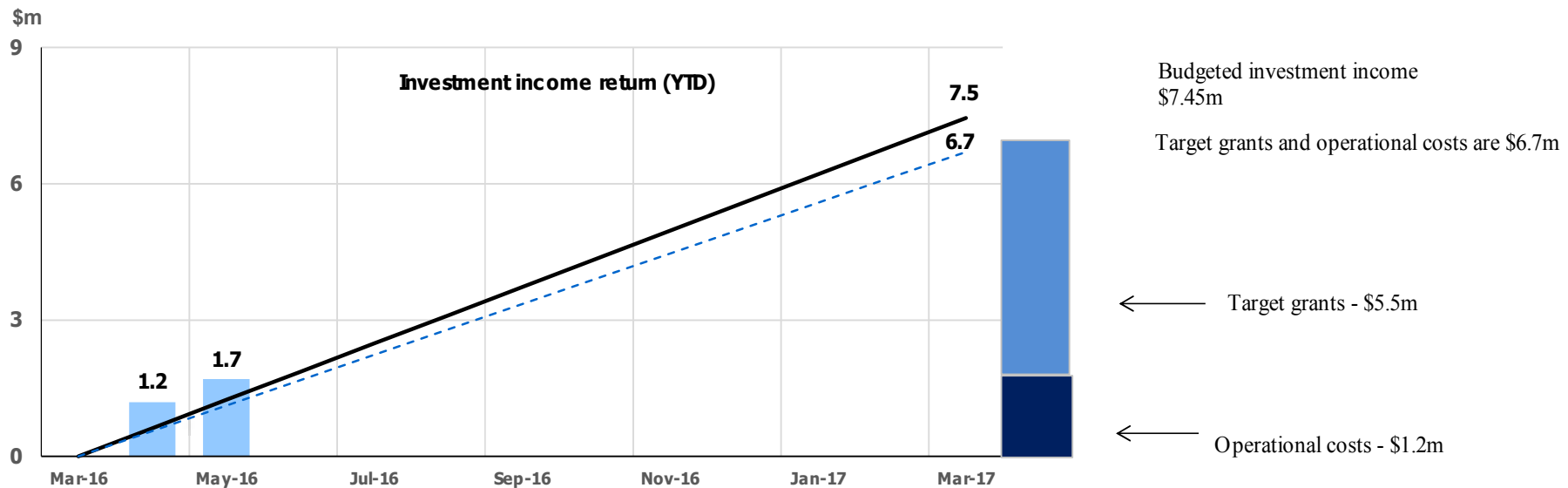
Environment

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 8 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, and low productivity.

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 2016/ 2017 target grants and operation costs are \$6.7m. The budgeted investment income is \$7.5m.

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



31 May 2016

Investment strategy - by investment asset type

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



Purpose	Liquidity Certainty Short-term	Income Reduced volatility Medium-term	Inflation protection Growth Long-term	Current grants Intergenerational Equity
Benchmark (\$)	\$10.00m	\$50.00m	\$108.86m	\$168.86 m
Benchmark (%)	5.9%	29.7%	61.5%	100.0%

Current assets vs benchmark

Current assets	\$9.73 m	\$53.27 m	\$105.86 m	\$168.86 m
Benchmark assets	<u>\$10.00 m</u>	<u>\$50.00 m</u>	<u>\$108.86 m</u>	<u>\$168.86 m</u>
Excess (shortfall)	-\$0.27 m	\$3.27 m	-\$3.00 m	\$0.00 m

Current assets vs capital base

Current assets	\$9.73 m	\$53.27 m	\$105.86 m	\$168.86 m
Capital base	<u>\$10.00 m</u>	<u>\$50.00 m</u>	<u>\$88.13 m</u>	<u>\$148.13 m</u>
Elevation Capital portfolio	-\$0.27 m	\$3.27 m	\$17.73 m	\$20.73 m

Current assets vs 125%x capital base

Current assets	\$9.73 m	\$53.27 m	\$105.86 m	\$168.86 m
Target assets	<u>\$10.00 m</u>	<u>\$50.00 m</u>	<u>\$125.16 m</u>	<u>\$185.16 m</u>
Excess (shortfall)	-\$0.27 m	\$3.27 m	-\$19.30 m	-\$16.30 m

Notes:

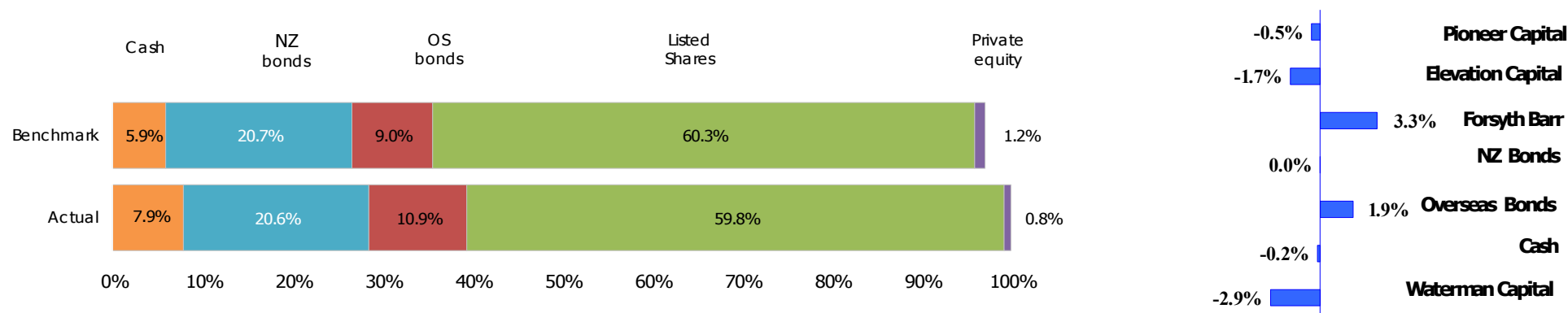
1. For the target asset levels, the cash holdings should include the undistributed distribution a/ c.
2. The allocation to bonds is below the optimal level for 125% x Capital base.
3. The allocation to shares/ property is below the benchmark level on each basis, reflecting the general downturn in the markets over the last 6 years.
4. The capital base (i.e. \$148.13m) represents the inflation adjusted original capital base set in April 1997 (i.e. \$90m) and should, in addition, include the undistributed grants reserve. The current assets should ideally exceed the value of these.

31 May 2016

Investment strategy - by manager and asset type

	Listed shares	Private equity	Bonds	Cash	Total	Actual	
						\$	%
Growth							
Listed shares							
Elevation Capital	\$45,563,999			\$2,713,281	\$48,277,280	\$48.28m	28.6%
Forsyth Barr	\$55,428,993			\$1,405,650	\$56,834,643	\$56.83m	33.7%
Private equity							
Pioneer Capital		\$1,138,232			\$1,138,232	\$1.14m	0.7%
Waterman Capital		\$150,000			\$150,000	\$0.15m	0.1%
						\$106.40m	63.0%
Income							
NZ bonds			\$34,820,066		\$34,820,066	\$34.82m	20.6%
Overseas bonds			\$18,449,334		\$18,449,334	\$18.45m	10.9%
						\$53.27m	31.5%
Cash							
Trust				\$7,262,006	\$7,262,006	\$7.26m	4.3%
Forsyth Barr Esam Cushing				\$2,470,315	\$2,470,315	\$2.47m	1.5%
FX Overlayl				-\$544,514	-\$544,514	-\$0.54m	-0.3%
						\$9.19m	5.4%
Total	\$100,992,992	\$1,288,232	\$53,269,400	\$13,306,738	\$168,857,362		
Current allocation (%)	59.8%	0.8%	31.5%	7.9%	100.0%		
Difference from benchmark	-0.5%	-0.4%	1.9%	2.0%			
Benchmark	60.3%	1.2%	29.6%	5.9%	97.0%		
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



31 May 2016

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	\$939,719	\$203,506	\$736,213
Currency movement (50% hedged)	\$669,258	\$304,934	\$364,324
Policy return	\$1,608,976	\$508,440	\$1,100,537
Currency management	(\$356,415)	(\$201,203)	(\$155,212)
Total return	\$1,252,561	\$307,237	\$945,324

Note:

The return on the combined Forsyth Barr and Elevation Capital managed shares for the month was \$2,278,234. This can be split between the market movement and the movement in the NZ dollar.

Market movement	\$939,719
Exchange rate movement	\$1,338,515
	<u>\$2,278,234</u>

The Trust's policy is to be 50% hedged, therefore the policy return for the month is \$1,608,976, i.e. the market movement and 50% of the exchange rate movement. The total return from the listed shares was \$1,252,561. Therefore the hedging management policy, to depart from the neutral position, decreased \$356,415 over the month.

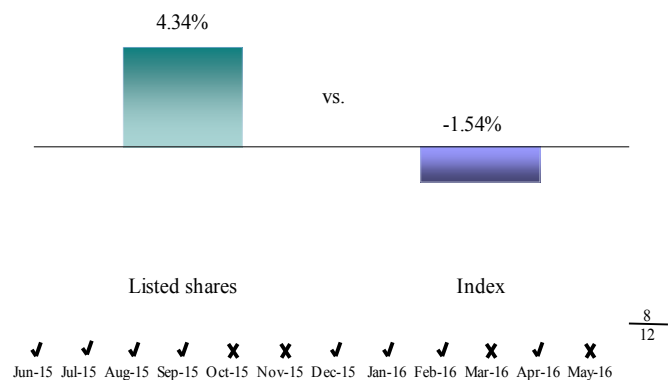
Historically, over the 2016/2017 year, the split has been:

Return from:	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	YTD 2016/17
Share markets	\$1,027,689	\$939,719											\$1,967,408
Application of 50% neutral policy	(\$284,395)	\$669,258											\$384,863
= Benchmark return	\$743,294	\$1,608,976	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,352,271
Impact movement of policy from 50%	\$18,548	(\$356,415)											(\$337,868)
= Total return	\$761,842	\$1,252,561	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,014,403

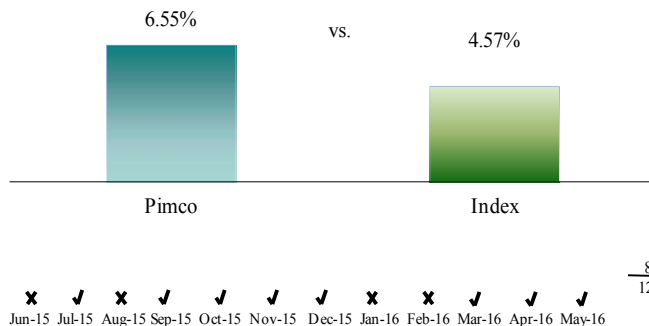
31 May 2016

Last 12 months' performance relative to market benchmark returns

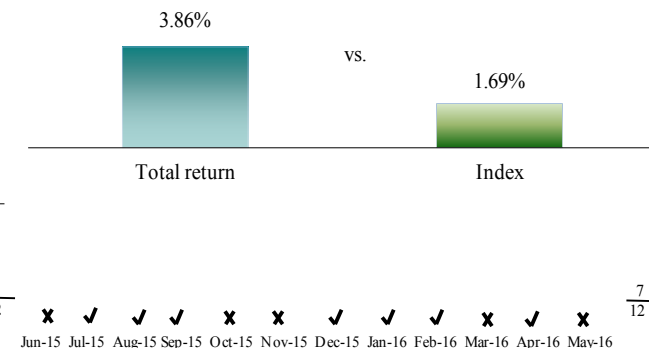
Listed shares



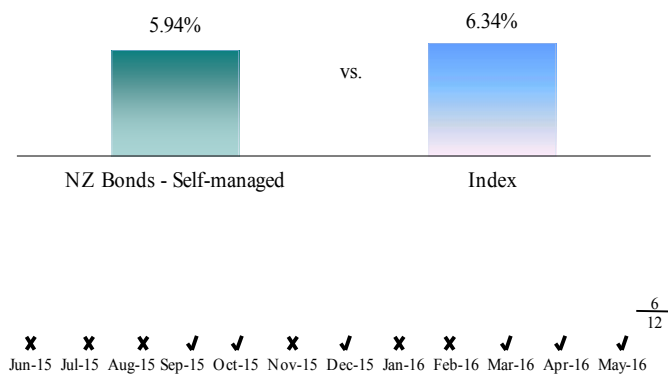
OS bonds - Pimco



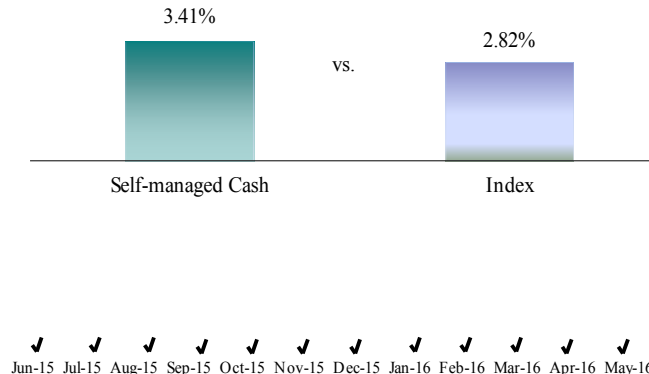
Total Return



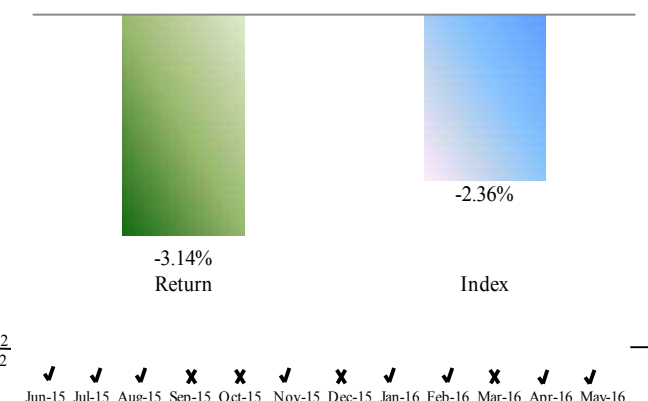
NZ bonds - Self-managed



Cash - Self-managed



Hedging

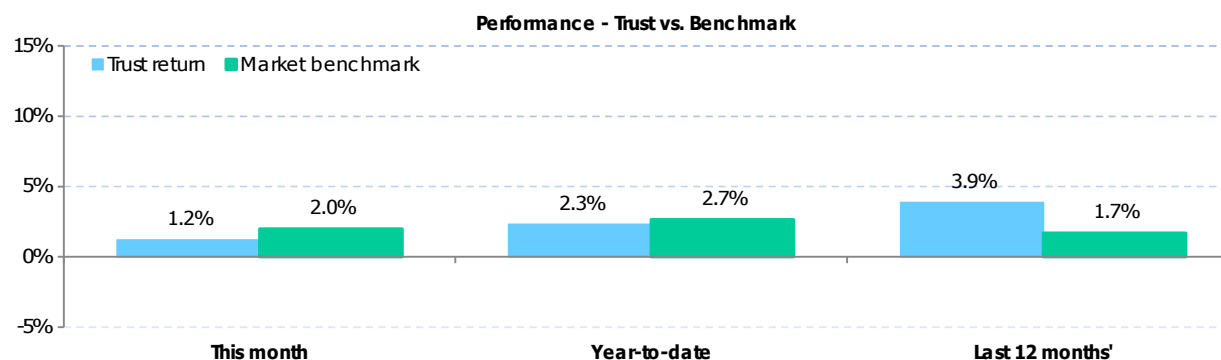


31 May 2016

Performance by manager

	This month (%)			Year-to-date (%)			Last 12 months' (%)		
	returns			returns			returns		
	Actual	Benchmark	Value added	Actual	Benchmark	Value added	Actual	Benchmark	Value added
Overall Trust return	1.19%	1.99%	-0.80%	2.29%	2.65%	-0.36%	3.86%	1.69%	2.17%
Listed shares and Hedging	1.52%	2.84%	-1.32%	2.92%	3.72%	-0.80%	2.56%	-1.54%	4.10%
Currency hedging	-1.00%	-1.05%	0.05%	-0.71%	-1.02%	0.32%	-3.14%	-2.36%	-0.78%
Total listed shares	1.08%	2.84%	-1.76%	2.17%	3.72%	-1.55%	4.34%	-1.54%	5.88%
Elevation Capital (portfolio)	1.03%	2.84%	-1.81%	2.98%	3.72%	-0.74%	3.14%	-1.54%	4.67%
Shares	2.08%	2.84%	-0.76%	3.89%	3.72%	0.17%	3.61%	-1.54%	5.15%
Liquidity	2.56%			2.09%			-2.78%		
Forsyth Barr (portfolio)	1.94%	2.84%	-0.90%	2.86%	3.72%	-0.85%	8.34%	-1.54%	9.88%
Shares	2.96%	2.84%	0.12%	3.59%	3.72%	-0.13%	8.42%	-1.54%	9.96%
Liquidity	0.29%			0.57%			2.97%		
Pioneer Capital Partners	n/ a			n/ a			n/ a		
Waterman Capital	n/ a			n/ a			n/ a		
NZ bonds - Self-managed	0.40%	0.39%	0.01%	0.89%	0.79%	0.11%	5.94%	6.34%	-0.40%
OS bonds - Pimco	0.58%	0.27%	0.31%	1.63%	1.02%	0.61%	6.55%	4.57%	1.97%
Self-managed - cash	0.24%	0.18%	0.06%	0.48%	0.38%	0.10%	3.41%	2.82%	0.59%

Note: Details of the benchmark indices are on page 15.



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Listed shares portfolio

Elevation Capital - Christopher Swasbrook

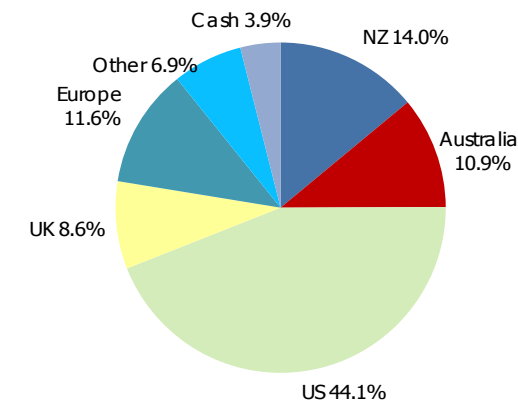
Forsyth Barr - Richard Burton

The objective of the portfolio is to provide:

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

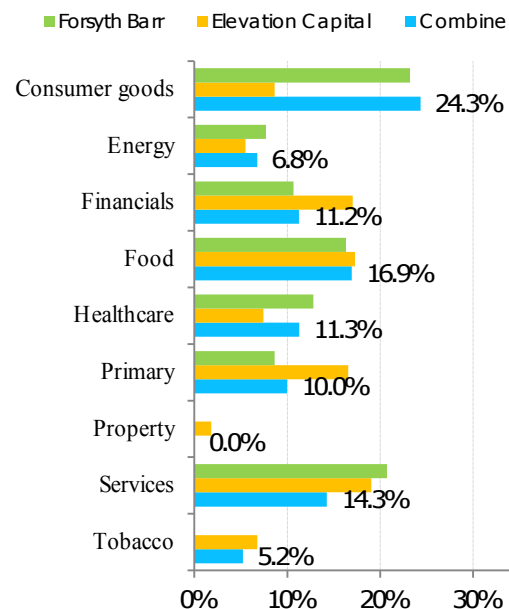
Geographic split

Country of listing	No. of holdings			Value of holdings			%
	EC	FB	Total	EC	FB	Total	
NZ	4	10	14	4,349,197	10,358,683	14,707,879	14.0%
Australia	7	6	13	5,476,133	6,018,075	11,494,207	10.9%
US	23	25	48	20,889,086	25,423,148	46,312,234	44.1%
UK	7	3	10	5,948,218	3,081,230	9,029,448	8.6%
Europe	3	10	13	2,713,879	9,525,610	12,239,489	11.6%
Other	8	1	9	6,187,487	1,022,248	7,209,735	6.9%
Shares	52	55	107	45,563,999	55,428,993	100,992,992	96.1%
Cash				2,713,281	1,405,650	4,118,931	3.9%
Total				48,277,280	56,834,643	105,111,923	100.0%

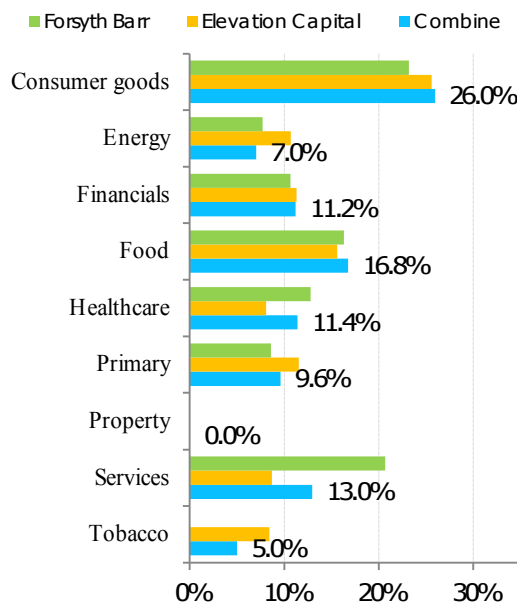


Industry split

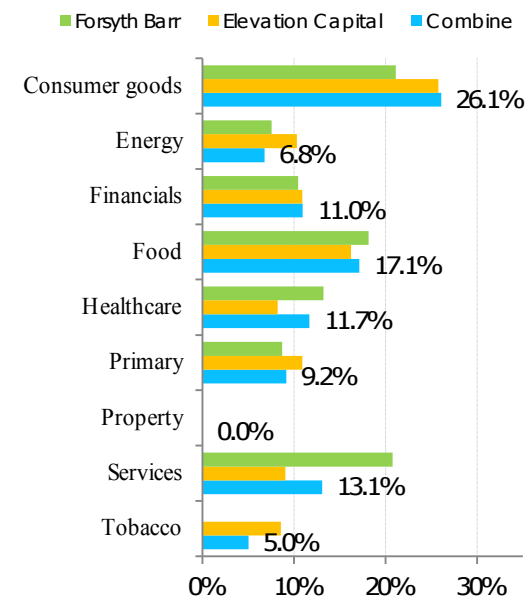
Start of the year 31 Mar 2016



Start of the month 30 Apr 2016



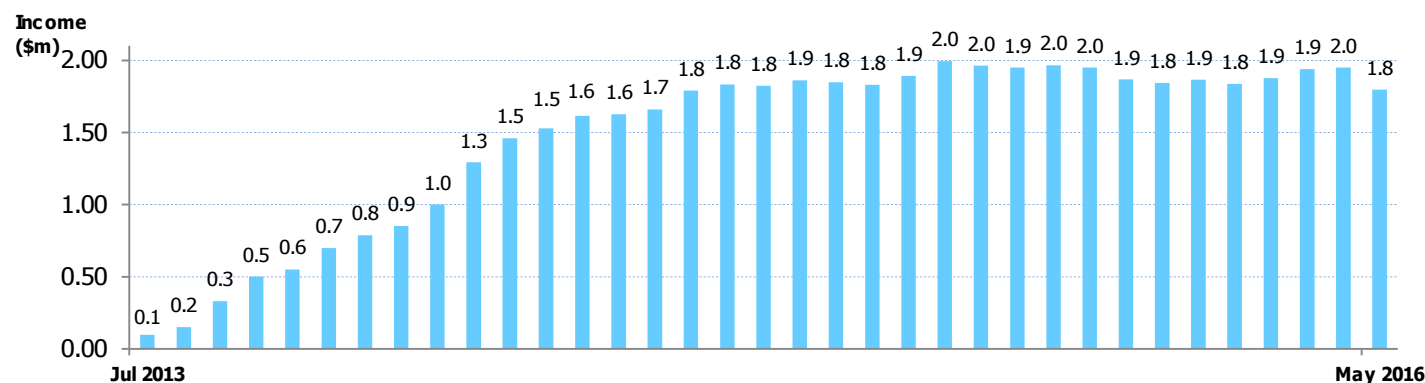
End of the month 31 May 2016



Summary of income & growth in portfolio

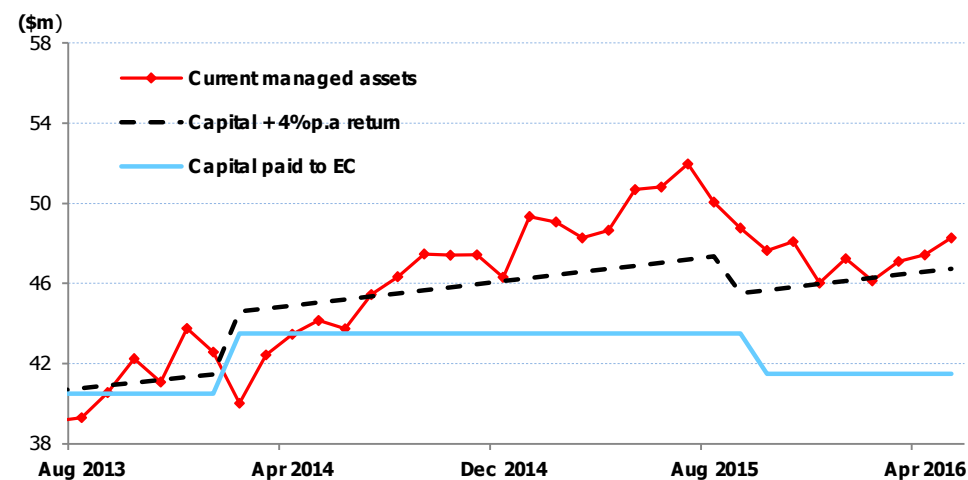
Cumulative dividend income for 12 month periods to month shown (\$m)

Elevation Capital



Assets	\$48,277,280
Distributions paid out since appointment	\$5,071,117

	Financial year to date	Since appointment
Value start of the year	\$44,413,103	
New capital given to manager		\$43,500,000
Capital withdrawals		(\$2,000,000)
Dividends received/ earned	\$483,504	\$5,252,775
Distributions paid to Trust	(\$579,857)	(\$5,071,117)
Market movement	\$901,583	\$1,095,342
Currency movement	\$345,665	\$2,787,000
Cash	\$2,713,281	\$2,713,281
Value at 31 May 2016	\$48,277,280	\$48,277,280

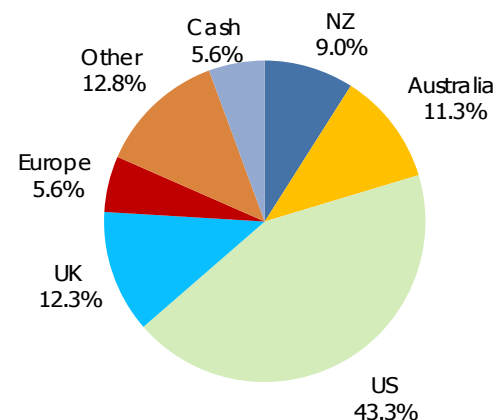


The difference between dividends & interest earned, and what was paid out, relates to the exchange rates at time of receipt versus payment used. Dividends received and paid to the Trust include both dividend and interest income on the investments.

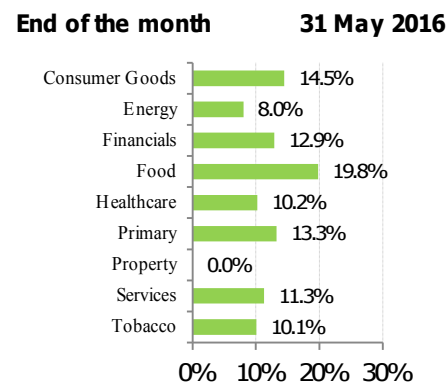
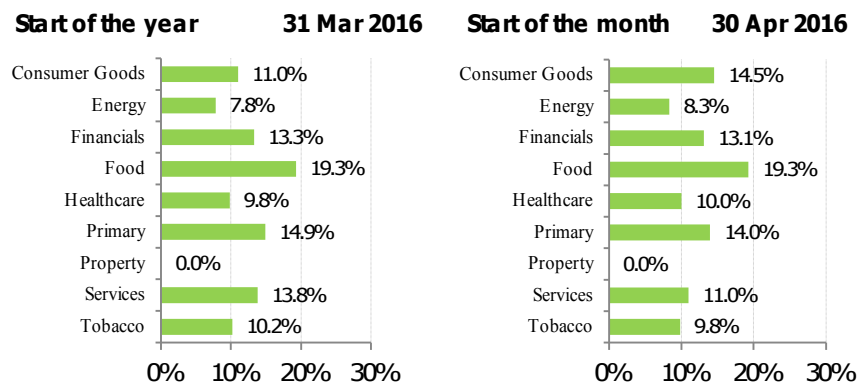
31 May 2016

Geographic split

Country of listing	No. of holdings	\$	%
NZ	4 shares	4,349,197	9.0%
Australia	7 shares	5,476,133	11.3%
US	23 shares	20,889,086	43.3%
UK	7 shares	5,948,218	12.3%
Europe	3 shares	2,713,879	5.6%
Other	8 shares	6,187,487	12.8%
Shares	52 shares	45,563,999	94.4%
Cash		2,713,281	5.6%
Total		48,277,280	100.0%



Industry split



Market returns (NZ\$)

	Last 1 year	Last 3 years	Last 5 years
Consumer goods	2.6%	15.8%	15.4%
Energy	-7.4%	0.5%	0.1%
Financials	-3.3%	9.7%	8.8%
Food	17.9%	17.4%	15.6%
Healthcare	-0.6%	19.3%	17.9%
Primary	-7.4%	4.4%	-0.8%
Services	7.0%	15.3%	14.0%
Overall MSCI	2.1%	13.2%	10.8%

Concentration risks:

Shares that are 20% or more above the "equal weighting target" of \$928,409

[Fletcher Building](#) [Coach, Inc.](#) [Chevron Corp](#) [Procter & Gamble Corp](#)

Shares that are 20% or less below the "equal weighting target" of \$928,409

[BHP Billiton](#) [Coca-Cola Amatil](#) [MetCash](#) [Arcos Dorados Holdings Inc](#) [BP Prudhoe Bay Royalty Trust](#) [Chesapeake Energy Corp](#)
[Freeport McMoran C&G](#) [HSBC Holdings](#) [British American Tobacco MK](#) [Siam City Cement](#) [Givaudan SA](#)

New shares

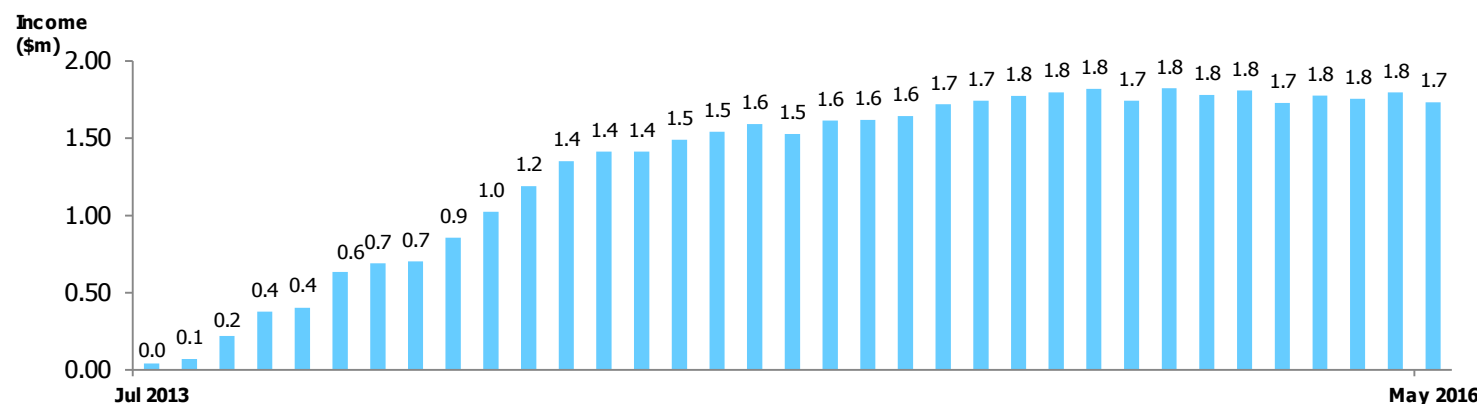
Exits

[South32 Ltd.](#), [CYBG Plc.](#)

Summary of income & growth in portfolio

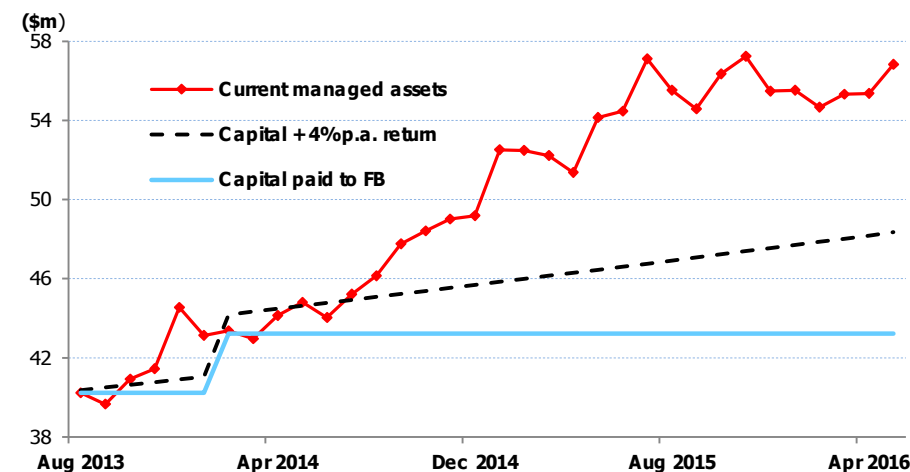
Cumulative dividend income for 12 month periods to month shown (\$m)

Forsyth Barr



Assets	\$56,834,643
Distributions paid out since appointment	\$4,622,172

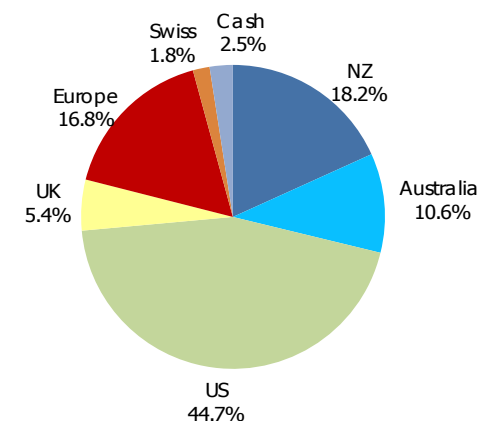
	Financial year to date	Since appointment
Value start of the year	\$53,761,434	
New capital given to manager		\$43,235,832
Capital withdrawals		
Dividends received/ earned	\$412,864	\$4,667,918
Distributions paid to Trust	(\$414,872)	(\$4,622,172)
Market movement	\$1,245,508	\$8,506,972
Currency movement	\$424,060	\$3,640,443
Cash	\$1,405,650	\$1,405,650
Value at 31 May 2016	\$56,834,643	\$56,834,643



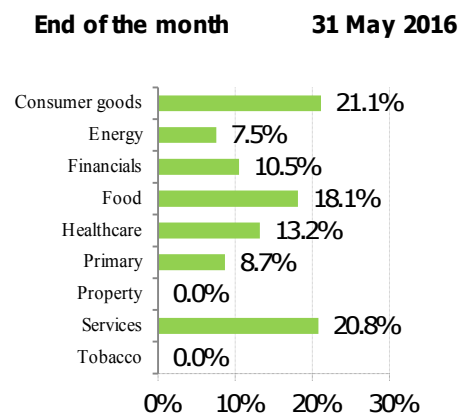
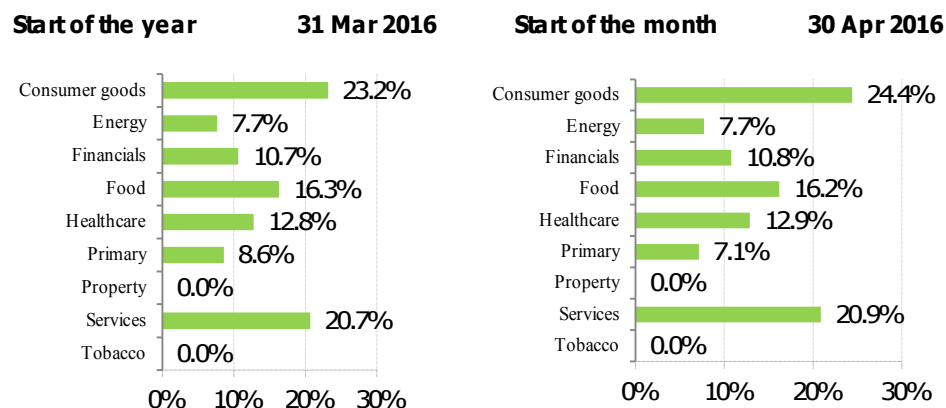
The difference between dividends & interest earned, and what was paid out, relates to the exchange rates at time of receipt versus payment used. Dividends received and paid to the Trust include both dividend and interest income on the investments.

Geographic split

Country of listing	No. of holdings	\$	%
NZ	10 shares	10,358,683	18.2%
Australia	6 shares	6,018,075	10.6%
US	25 shares	25,423,148	44.7%
UK	3 shares	3,081,230	5.4%
Europe	10 shares	9,525,610	16.8%
Swiss	1 shares	1,022,248	1.8%
Shares	55 shares	55,428,993	97.5%
Cash		1,405,650	2.5%
Total		56,834,643	100.0%



Industry split



	Market returns (NZ\$)		
	Last 1 year	Last 3 years	Last 5 years
Consumer goods	2.6%	15.8%	15.4%
Energy	-7.4%	0.5%	0.1%
Financials	-3.3%	9.7%	8.8%
Food	17.9%	17.4%	15.6%
Healthcare	-0.6%	19.3%	17.9%
Primary	-7.4%	4.4%	-0.8%
Services	7.0%	15.3%	14.0%
Overall MSCI	2.1%	13.2%	10.8%

Concentration risks:

Shares that are 20% or more above the "equal weighting target" of \$1,033,357

Shares that are 20% or less below the "equal weighting target" of \$1,033,357

Allianz SE Hellaby Holdings

New shares

Stanley Black & Decker, Inc.

Exits

L Brands

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	June 2013, Feb 2016	Pioneer Capital Partners, Waterman Capital.
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	S&P/ NZX A Grade Corporate Bond Index.
OS bonds hedged - Pimco	30% Citigroup World Govt Bond Index hedged and 70% Citigroup World Corp Bond Index hedged.
Self-managed - cash	NZX call rate.

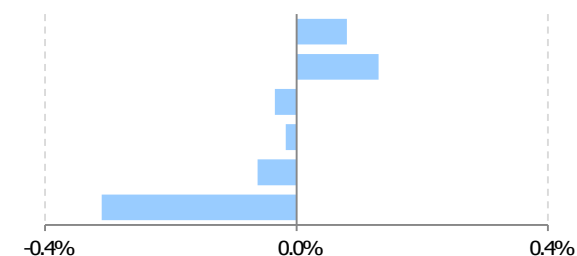
31 May 2016

Environment and market statistics

90-day bank bill rates

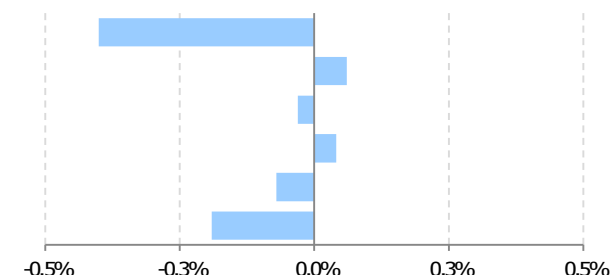
	Start of year 1 Apr 2016	Start of period 1 May 2016	End of period 31 May 2016	Movement	
				Month	Year-to-date
NZ	2.3%	2.4%	2.4%	0.0%	0.1%
US	0.2%	0.2%	0.3%	0.1%	0.1%
UK	0.5%	0.4%	0.4%	(0.0%)	(0.0%)
Euro	(0.2%)	(0.3%)	(0.3%)	(0.0%)	(0.0%)
Japan	(0.1%)	(0.2%)	(0.2%)	(0.0%)	(0.1%)
Australia	2.3%	2.1%	2.0%	(0.2%)	(0.3%)

Year-to-date (change)



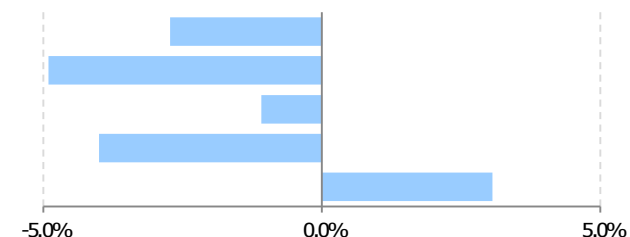
10 year government bond yields

	Start of year 1 Apr 2016	Start of period 1 May 2016	End of period 31 May 2016	Movement	
				Month	Year-to-date
NZ	3.0%	2.9%	2.6%	(0.3%)	(0.4%)
US	1.8%	1.8%	1.8%	0.0%	0.1%
UK	1.5%	1.5%	1.4%	(0.1%)	(0.0%)
Euro	0.9%	1.0%	1.0%	0.0%	0.0%
Japan	(0.0%)	(0.1%)	(0.1%)	(0.0%)	(0.1%)
Australia	2.5%	2.5%	2.3%	(0.2%)	(0.2%)



Exchange rates

	Start of year 1 Apr 2016	Start of period 1 May 2016	End of period 31 May 2016	Movement	
				Month	Year-to-date
US	0.6913	0.6985	0.6725	(3.7%)	(2.7%)
UK	0.4812	0.4770	0.4576	(4.1%)	(4.9%)
Euro	0.6101	0.6136	0.6035	(1.6%)	(1.1%)
Yen	77.82	75.01	74.71	(0.4%)	(4.0%)
Australia	0.9027	0.9139	0.9303	1.8%	3.1%



31 May 2016

Environment and market statistics

Sharemarket returns (local currency)

	Month	Year-to-date	Last 12 months	Last 3 years (p.a.)	Last 5 years (p.a.)
US (S&P 500)	1.5%	1.8%	(0.5%)	8.7%	9.3%
Japan (Nikkei 225)	3.4%	2.8%	(16.2%)	7.8%	12.2%
UK (FTSE 100)	(0.2%)	0.9%	(10.8%)	(1.8%)	0.8%
Germany (DAX)	2.2%	3.0%	(10.1%)	7.1%	7.1%
France (CAC 40)	1.7%	2.7%	(10.0%)	4.5%	2.4%
Australia (ASX 200)	3.1%	6.6%	(2.4%)	7.7%	7.5%
NZ (S&P/NZX 50)	3.2%	4.3%	20.4%	16.0%	14.7%
MSCINet div unhedged	3.9%	4.8%	1.0%	12.5%	10.8%
MSCINet div 50%hedged	3.0%	3.9%	(0.2%)	11.9%	11.1%
MSCINet div 100%hedged	2.0%	3.0%	(1.8%)	11.0%	11.1%

Note:

1. Year-to-date is the period since 1 April 2016.
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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