The New Zealand Anglican Church Pension Board

Anglican House

'Old Bishops' Court'
Pension Board premises

Investment Management for the Koinonia Fund

August 2009

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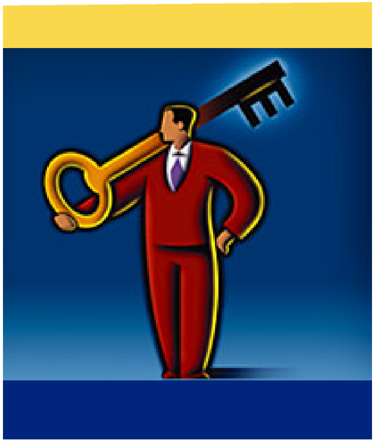
Investment management by the New Zealand Anglican Church Pension Board for the Koinonia fund

The Pension Board provides a Koinonia Fund investor with:

- Participation in a well established tax efficient pool of investments of approximately $125 million.
- Experience in investing to achieve returns for investors.
- An emphasis on the net returns to the investor. As a non profit making Church group, deductions from gross market returns for expenses and tax are kept to a minimum so that net investor returns can be maximized.
- An in depth understanding of the requirements of trustee investment, particularly with an awareness of the ethical issues that can arise in a Christian context.
- A professional attitude where performance is benchmarked to industry standards, but a critical attitude that can be applied to industry practices.



- An openness and transparency in reporting. Reports are a statement of accountability from a trustee perspective.
- Investment management which is big enough to be effective, yet small enough to be flexible.
- A personal approach and an understanding of those who contribute to the mission, ministry and outreach of church organisations.
- A track record of providing administration and investment management for superannuation schemes:
  - for Anglican clergy.
  - for church workers of 91 denominations and Christian organisations.
  - for other people who serve their church or wish to participate in a KiwiSaver provided by a Church.

Features of The Pension Board's Investment Management

The Board has produced good returns over a long period of at least fifteen years.

A Unitised Fund

The Pension Board is well set up to provide investment management. It has run a unitised fund with unitised asset sectors since 1994.

This means that an investor can:

Choose different mixes of assets

Choose one or more mixes of investment assets in the Koinonia Fund's investment pools that suits their needs.

Pension Board's structure & operation

The motivation of the Board, its committees and staff

The Board operates for Church organisations

The Board's motivation is service to the church, its clergy, lay workers and members, including those of other denominations for whom it provides superannuation, insurance and taxation services.

The difference between gross returns and net member returns are kept to a minimum by cost efficient direct investment where this is sensible.

The Board and the Investment Committee are not entitled to remuneration, but they may recover actual expenses incurred in undertaking authorised activities.

Expenses would be higher if the Board were a profit organisation.

Pension Board and Investment Committee

The Board acts as trustee and investment manager for five trusts, and investment manager for other Anglican organisations. There is also an independent trustee for the Koinonia Fund.

Relationship between the Board and the Investment Committee

The Board has responsibility for the investment of funds and has appointed its own Investment Committee to whom it has devolved all its powers and authorities of investment, but not its responsibilities. A member of the Board is also a member of the Investment Committee. Members of the Investment Committee are chosen for their experience in investment or commerce or in the funds management industry.

The Board's relationship with the Investment Committee has similarities with the relationship that any group of trustees would have with their fund manager.

Policy and Strategy

The Board has documented a Statement of Investment Policy and Objectives (SIPO) for the Koinonia Fund which includes assessing the different requirements for each investment pool e.g. how much money in growth or income assets is required. The SIPO sets out different asset allocations for each pool which are designed to best achieve an expected outcome, with operating margins around those allocations.

Framework for investment management

The Investment Committee works to the SIPO for each investment pool and reports to the Board as it is required to do. The Investment Committee may invest according to its best assessments of the investment markets within a range around the asset allocations and within other prescribed limits.

The Investment Committee has its own extensive documentation to which it works called Policies, Authorities and Limits (PALs). These set out how the Investment Committee, its subcommittees and management shall act. The Investment Committee reports to the Board on its management under the PALs as well as the SIPO.

Personnel Profiles

Appendix 1 sets out the management structure. Appendix 2 provides profiles of the Investment Committee members and key advisors.

Investment Pools

Choosing between growth and income assets

Explanation of growth and income assets

Growth assets are:
- Alternative Assets
- Shares
- Property

Growth assets have been shown over a long period of time to produce the best overall returns (usually from capital growth) compared with income assets. Over the short term, returns from growth assets tend to be more volatile than those from income assets.

Income assets are:
- Cash
- NZ Fixed Interest
- Mortgages
- Overseas Fixed Interest

Income assets have been shown over a long period of time to produce lower returns than growth assets. There are usually few capital gains but good cash flows. Returns have low volatility compared with those of growth assets and are less likely to be negative over the medium to long term. (Negative returns can arise when interest rates move up which means fixed term interest holdings lose value.)

Benchmarks for growth and income assets

Different mixes for different pools

Koinonia Fund members decide which combination of growth and income assets best suits their needs, as represented in the Benchmark Asset Allocations of the three investment pools—Conservative, Balanced and Growth.

Benchmarks are the optimised medium to long term asset allocations reflecting expected returns and risk from these asset sectors.

Over the shorter term there are likely to be some allocations which differ from benchmarks.

Conservative Pool

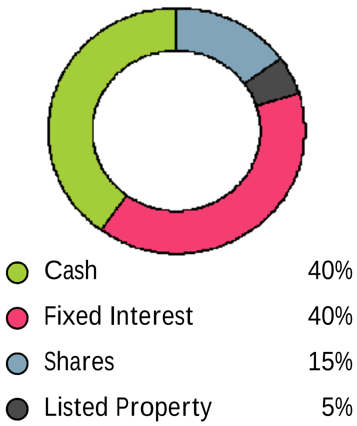
More income assets

The Conservative Pool is intended to be the least volatile option.

At this date, the benchmark portfolio for the Conservative pool is 80% income assets and 20% growth assets.

Koinonia Conservative Pool	
Investment Strategy	This pool invests mainly in Cash and Fixed Interest investments, with a small exposure to growth assets such as Shares and Listed Property.
Suited to	It may appeal to members who are close to retirement (and who consider they may not have time to ride out investment highs and lows) or who are more risk averse and feel uncomfortable investing in a portfolio which invests more in shares.
Risk profile	Low

Conservative Investment Portfolio Benchmark Asset Allocations



INVESTMENT POOLS CONT.

Balanced Pool

Equal growth and income assets

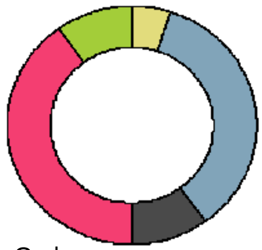
The Balanced Pool is intended to suit the needs of most members.

At this date, the benchmark portfolio for the Balanced Pool is 50% income assets and 50% growth assets.

Koinonia Balanced Pool

Investment Strategy	This pool has a moderate exposure in Cash and Fixed Interest investments, and a moderate exposure to growth assets such as Shares, Listed Property and Alternative Assets.
Suited to	It should suit investors willing to accept a medium degree of risk to pursue long term growth.
Risk profile	Medium

Balanced Investment Portfolio Benchmark Asset Allocations



Cash	10%
Fixed Interest	40%
Alternative Assets	5%
Shares	35%
Listed Property	10%

Growth Pool

More growth assets

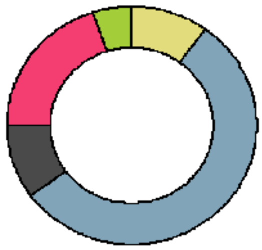
The Growth Pool is intended to suit investors seeking higher potential capital gains. There is often above-average risk due to increased volatility. Investing in a growth pool requires a tolerance for risk with a time horizon of usually five to 10 years.

At this date, the benchmark portfolio for the Growth Pool is 25% income assets and 75% growth assets.

Koinonia Growth Pool

Investment Strategy	This pool invests mainly in growth assets such as Shares, Listed Property and Alternative Assets, with a small exposure to Fixed Interest and Cash.
Suited to	It is designed to suit members who have a long term investment horizon or who are less risk averse and are prepared for significant fluctuations in returns over the short to medium term.
Risk profile	Medium - High

Growth Investment Portfolio Benchmark Asset Allocations



Cash	5%
Fixed Interest	20%
Alternative Assets	10%
Shares	55%
Listed Property	10%

INVESTMENT POOLS CONT.

Investments generally

While the descriptions of the preceding pools as outlined may be of some use to you in making an investment, all investments carry an element of risk and you should seek advice before making your pool choice.

Please note that the investment strategy, benchmark portfolios and asset allocations for these investment pools, as well as the investment pools available, may change at any time and no guarantee is given that the pools' objectives or risk profile will be achieved. In particular, notwithstanding the stated investment objectives, there is a risk that in some years the returns on any one or more of the pools may be negative.

Seek financial advice

INVESTMENT ASSETS

Mainly direct investment

The Investment Committee mostly invests directly, with the exceptions outlined below. Direct investment lowers costs.

a. Cash

Credit rating usually at least A1

Cash can comprise bank accounts, call accounts, broker accounts, discounted and interest bearing securities with up to a year to run to maturity and floating rate notes, usually with Standard and Poors ratings of A1 (short term) or better.

This sector comprises a Cash portfolio, which includes the money flowing through the bank accounts, and high quality corporate or bank bonds.

The Cash sector is used to supply liquidity and/or provide more certain returns in times of investment uncertainty in other sectors.

b. Fixed Interest

i. Tradeable securities in New Zealand

Average security rating of the portfolio must be at least A

Direct investment is made in New Zealand Government Stock or a limited number of state owned enterprises, local authorities, trading enterprises, banks, and other classes of securities as approved. Approved unrated local authority stock may be purchased, but otherwise all these securities have credit ratings BBB or better. The average security rating of the portfolio should be a minimum of A.

The sector comprises a New Zealand Fixed Interest portfolio whose performance is compared with the Government stock benchmark.

New Zealand fixed interest provides relatively more cash flow than the other world fixed interest markets that the Board invests in and the sector should provide better returns than cash over time.

ii. Mortgages

Mortgages to people affiliated with the Church

This is a broadly based low-risk portfolio of direct investments in residential first mortgages. Residential borrowers have an existing contact with either the Board (e.g. Pension Fund, Retire Fund or Koinonia Fund contributors etc.) or the Church (e.g. parishioners). No commercial mortgages are currently held.

The Board's mortgage rates are based upon those of the banking sector. Floating, one year and three year rates are set approximately 0.25% below the average rate of six banks.

The Board offers mortgages as a service to church members and also to stabilize fixed interest returns.

iii. Overseas Fixed Interest

Overseas Fixed Interest is managed currently by PIMCO USA and AMP. Funds are invested across a wide range of government and rated stock, as well as other debt instruments. The currency exposure is fully hedged.

Overseas fixed interest should provide returns which are similar to, but less volatile than, those from New Zealand fixed interest. Currency hedging can increase these returns.

Managed by external fund managers

c. Alternative Assets

This small sector may comprise alternative investment strategies such as "absolute returns", hedging tactics, private capital and real assets. Currently the investments comprise three New Zealand/Australian private equity funds, forests and land.

Alternative assets are held to provide diversification and are expected to provide mainly capital gains or returns from trading.

Alternative investment

d. Shares (Equities)

i. Australian and New Zealand Equities

The New Zealand and Australian markets are viewed as local. Direct investment is usually undertaken in companies in the Australian All Ordinaries index or the NZSX50, but other companies may be approved for purchase also. Sometimes there are investments in investment companies.

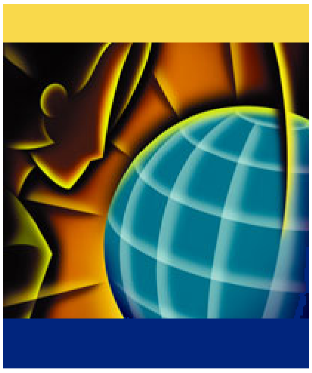
These equities are investments in the local Australasian market, which reflects the financial environment of the investor. In addition there are some categories of investment in Australia which are world class and are not available in New Zealand.

ii. Overseas Equities

Currently investments include a Fund Manager using three ethical or socially responsible overseas managers, a spread of index stocks for coverage and volatility reduction, and cash.

Overseas equities are invested in the major sharemarkets of the world. Over the longer period it is 'expected' that both returns and volatility should be lower than for Australian/New Zealand equities (after currency hedging). Equities are held especially to provide capital gains.

Chosen using judgements on ethics



e. Listed Property (Property equities)

This sector comprises holdings mainly in New Zealand or Australian property companies or unit trusts. Overseas holdings may be included. All companies are listed on an approved stock exchange.

Property companies are held to provide a mixture of capital gains and income returns.

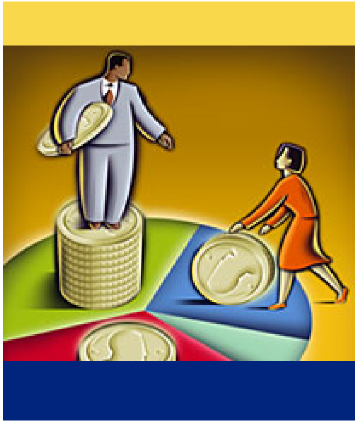
Management across sectors

Financial Instruments

Protection mechanisms

- Currency

  Overseas Fixed Interest is 100% hedged to NZ dollars. Overseas equities, Australian equities and Alternative Assets may be hedged within specified limits to protect asset values. Hedging is undertaken directly by Board staff using two major trading banks. In all cases hedging is against actual exposures.



- Fixed Interest and Equities

  Options and forward interest rate agreements may be entered into with the purpose of protecting the portfolio from potential market fluctuations, and to enhance returns.

RESPONSIBLE INVESTING

Awareness of ethical issues

Ethical Investment Policy and Action

The Board has followed an Ethical Investment Policy for a number of years. This policy, which used to be a set of guiding principles for management, was formally adopted as guidelines by the Board and its Investment Committee in 2002.

The Board uses the strategies of negative screening (not purchasing certain investments) and reaction as a shareholder.

The actions that the Investment Committee takes in accordance with the Ethical Investment Policy include:

i. Not purchasing shares in a company, nor buying the debt in a company whose activity falls outside the guidelines;

ii. Selling such shares or debt should the company appear to be no longer complying with the guidelines;

iii. Exercising voting power in accordance with the guidelines. Over recent years the Investment Committee has been quite active in this respect, particularly where it considers that the remuneration packages for the company's board or management have been excessive. There have also been occasions when certain company activities have raised ethical concerns, resulting in action by voting or selling.

The Investment Committee is also concerned to ensure that the Equity, Fixed Interest and Alternative Strategy Assets can be spread across a wide range of industrial sectors and investment strategies. Such diversification is almost impossible to achieve using a vehicle the Investment Committee would be satisfied would comply with all of its ethical concerns, and so the Ethical Investment Policy does not preclude investment in:

- Tracker funds / diversified or composite equity funds for overseas or Australian investment.
- Alternative Strategy funds (e.g. hedge or absolute return funds)
- Fixed Interest funds for overseas investment.

These funds may not necessarily have the same approach as the Board to ethical investment.

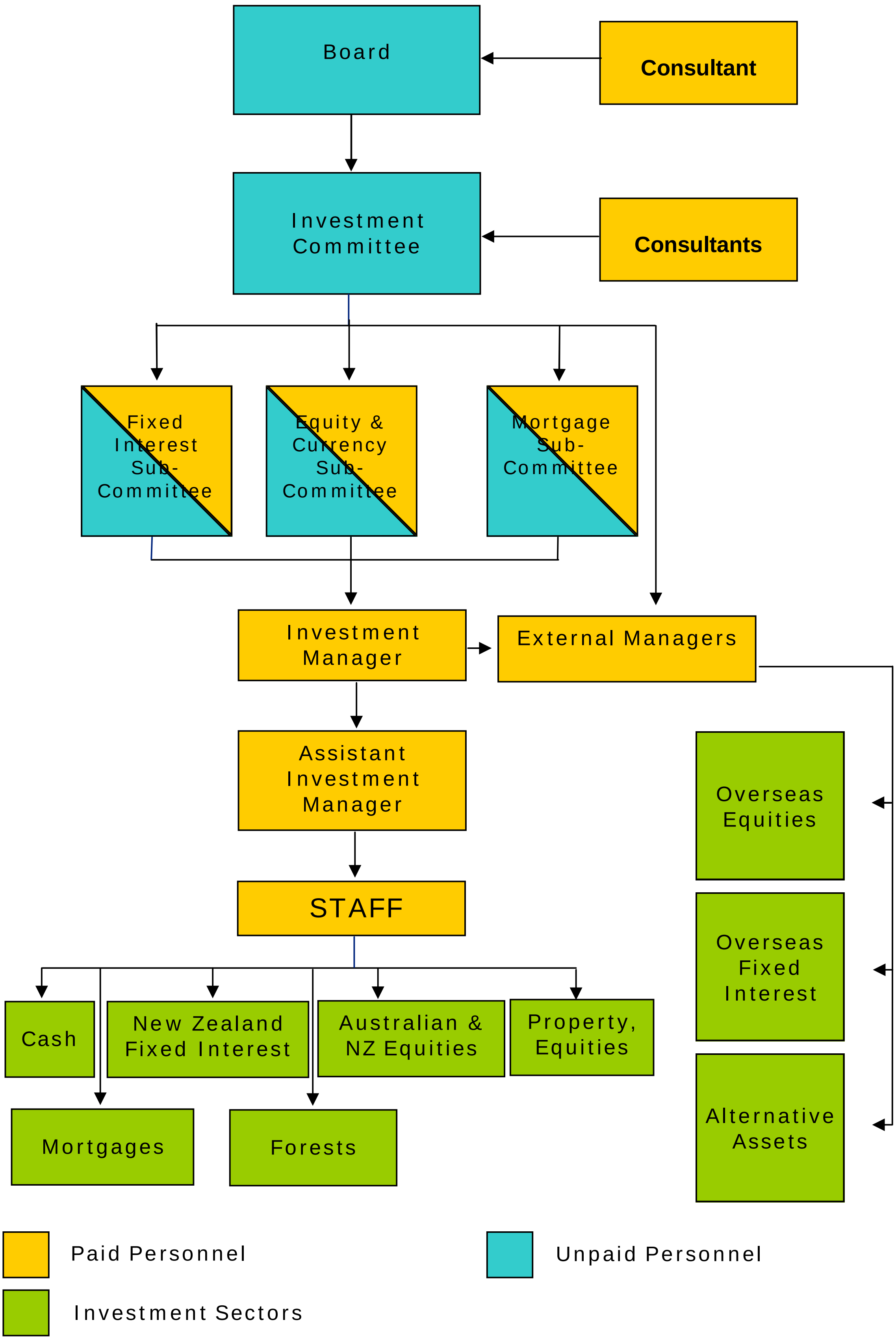
In any investment pool, it is likely that the assets to which ethical assessment is applied will exceed those invested in such funds above.

The implementation of the policy guidelines is primarily the responsibility of management in conjunction with the equity consultant, and matters are referred to the Investment Committee and/or its Equity Sub-Committee, as appropriate.

From 1 April 2008 the Investment Statement of the Koinonia Fund has included the following words.
"Responsible investment including environmental, social, and governance considerations, is taken into account in the investment policies and procedures of the scheme as at the date of this Investment Statement."

The Responsible Investment Statement and the Ethical Investment Policy is available for viewing on the website.

APPENDIX 1— INVESTMENT MANAGEMENT STRUCTURE



APPENDIX 2—PERSONNEL

Investment Committee members:

Mr I R Millard QC
Ian has been a member of the Investment Committee for over 20 years and Chairperson since 1991. Ian is a Wellington QC specialising in commercial law.

Mr D J Baskerville
Don is a business consultant with over 25 years experience in the superannuation industry, an associate actuary and a member of the Institute of Directors.

Mr P G Gibson
Peter is a property consultant and Auckland businessman. Prior to starting his own consultancy in 1988, Peter was New Zealand Property Manager for Brierley Investments Ltd.

Mr K H Rendell
Kevyn is a principal of Gould Steele & Co, a licensed stock broker of 33 years standing and a member of The Institute of Financial Professionals.

Mr D S Stevens
Prior to his retirement, David was the Executive Director of the Association of Superannuation Funds of New Zealand (ASFONZ) and is trustee for several company superannuation funds.

Mr G R Thomas
Graeme is an Executive Director of Milford Asset Management Ltd. His past roles include Head of Advisory Services for ANZ Private Banking, Principal Investment Consultant at William M Mercer and Chief Investment Officer at Southpac. Graeme has 23 years investment management experience and his qualifications include being a Certified Financial Planner.

Specialists engaged by the Investment Committee:

Investment Consultant
Mr G C Gould has over 40 years experience in stockbroking. He was a partner in Gould Steele & Co and has become an independent consultant. Garry specialises in overseas and New Zealand equity markets and has delegated authority to deal on behalf of the Board in equities, futures and options.

Investment Consultants
Mr Charles McDonald and Mr Bernie Higgins of Aon Consulting provide advice on the Statement of Investment Performance and Objectives (SIPO) to the Pension Board.

Other Consultants
The Investment Committee receives regular advice from independent property and forestry consultants.

Management

The Investment Manager, Mrs Gillian Robertson, and the Pension Board staff undertake day to day management of the investment funds. Management contribute to and coordinate the work of the Investment Committee and its sub-committees. Management have limited delegated authority to make decisions in relation to the cash and fixed interest sectors, the currency exposure and in conjunction with Garry Gould, the equity sector. Management meet or converse with Mr Gould twice weekly to review the markets, economic trends and the portfolios, companies, trusts and funds. Management review positions daily.

Management are required to ensure compliance and control policies are carried out.

For further information please contact:

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