

OVERVIEW

RETURNS - For the December Quarter

The Koinonia Fund Growth Pool produced a negative return of -7.1% gross the Balanced Pool made -4.4% gross and the Conservative Pool made -0.8% gross for the quarter. The sectors that made the best returns were New Zealand Fixed Interest, Forests and Land and Mortgages. As well as the equity sectors making negative returns, the continuing disarray of the international debt markets resulted in a negative return in the Overseas Fixed Interest sector.

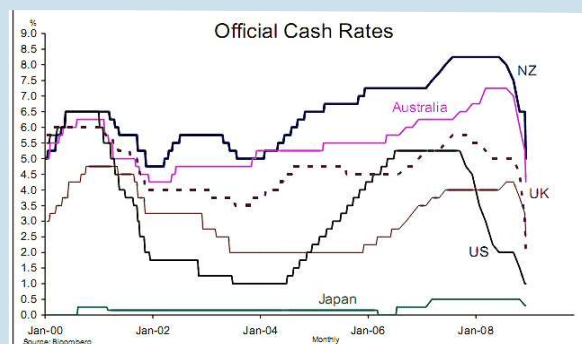
INVESTMENT MARKETS - For the December Quarter

Investment markets are being described as the "perfect storm". That means the bond markets and the economies are all falling together. A generation's wealth has been wiped out with bonds, equities, housing, commodities and currencies all volatile and falling. Asia, China especially, was to support the Western World's economies, but countries' economies were converging and all shrank together.

The world share index (MSCI) fell to 50% from its 2007 peak.

There was a long list of world banks losing nearly all their value. There are only five major non-retail banks left in Wall Street and now only three UK domestic banks remaining. Countries were printing money to prop up their financial systems, with money going mainly to the large banks.

Countries' budget deficits exploded particularly in the USA where financial support packages totalled USD \$4trn and in Japan Yen 88.5trn. Interest rates fell almost to 0% — the Federal Reserve of the USA to 0.25% and USA ten year bonds to a historic low of 2.2%.



BNZ Financial Markets Wrap Dec 2008

Oil had peaked in 2008 at USD \$150 per barrel and was said never to fall below USD \$80 again, yet it ended up at USD \$44 at the end of December.

*** All returns in this report are provisional and before deduction of expenses and taxes.**

Recession was acknowledged and possible economic depression became a worry.

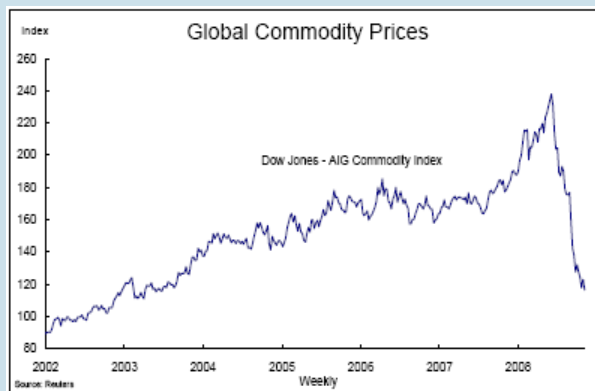
In New Zealand:

Performance was generally better than overseas due to lack of financial products and resource shares while the New Zealand share market was not so volatile.

The New Zealand Government offered guarantees for depositors in approved banks and finance companies. The price of petrol fell as did the New Zealand dollar and bond rates.

Inflation fell from a previous high of 5.1% to 3.4% for the year, allowing room for future Official Cash Rate decreases but -

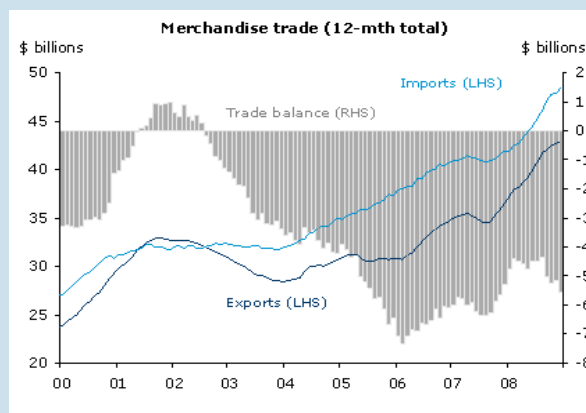
- The National Bank activity index was the lowest in its 20 years.
- Wool and dairy was down 12% in December with the biggest falls in the commodity index in 22 years (see graph).



BNZ Models 4 December 2008

The volume of house sales fell 50% from their previous year end.

The merchandise trade balance had worsened since mid-year (see graph).



ANZ Economics Dec 2008



INVESTMENT SECTORS

Returns are gross unless otherwise stated.

Cash and Short Term

The Official Cash Rate in New Zealand was cut by 2.50% to 5.00%, while the other major economic blocks also reduced their rates considerably, Japan by 0.20% to 0.30%!

Residential Mortgages

The Pension Board's floating rate dropped 2.40% to 7.80%. The three year fixed rate decreased to 7.15%.

Fixed Interest

Nobody was talking about inflation anymore, only recession and possibly the big "D" depression. Long bond rates fell.

New Zealand Fixed Interest

New Zealand government bonds with a 10 year maturity fell from 5.68% to 4.62%, resulting in good capital gains. The portfolio therefore showed strong returns and outperformed benchmarks.

Overseas Fixed Interest

Overseas governments, notably USA, UK and Germany, provided billions in their respective currencies to help banks and other financial institutions like AIG (American Insurance Group) which hold assets like mortgages and other financial instruments like CDOs (collateralised debt obligations) which have collapsed.

Ten year Treasury bonds in the USA fell from 3.8% to 2.3%, while Europe moved from 4.0% to 2.9% and Australia from 5.4% to 4.1%. AMP and PIMCO, who are the Board's Overseas Fixed Interest managers, continued to underperform due to having moved away from investing in government bonds and into corporates and finance company related instruments which have suffered.

Alternative Strategy Assets

The Fund has investments with Direct Capital (DCP III fund) and Goldman Sachs JBWere (Trans Tasman No.7 fund). Over the quarter there have been both repayments and calls.

Australian and New Zealand Equities

For the quarter within this sector, 40% of investments were in New Zealand and 60% in Australia. New Zealand returned -0.48%, and Australia -22.5% in Australian dollars (equal to -20.8% in NZ dollars after currency movements). The total return was -15.2% which was above the benchmark.



New Zealand Companies

Best – Fisher & Paykel Healthcare (demand for product), Port of Tauranga (export volume expected to be maintained), Goodman Fielder (staples in a recessionary environment).

Australian Companies

Best – Goodman Fielder (staples in a recessionary environment), Woolworths (in recession people still buy necessities).

Resource stocks continued to impact heavily on the portfolio.

Overseas Equities

Most of the funds are with AMP Capital's Responsible Investment Leaders Global Shares Fund. The remaining monies are unscreened (for responsible investment standards) Index Funds to try and provide some stability in returns.

Property Equities

Investments are held in a number of property companies in New Zealand and Australia. This sector like most other equities sectors suffered double digit negative returns.

Forests

The National Government has thrown the Emissions Trading Scheme into the melting pot by setting up a Select Committee to review what has been put in place across all sector of the economy; whether this is the best way to deal with Climate Change, or even whether there is expected to be substantial positive impact on Climate Change if ETS is introduced. Meanwhile, Forestry was brought into ETS on 1 January 2008, compliance is required by forest owners, eg for deforestation for 2008, submissions are due on "free" allocations of units for the pre 1990 forests, and owners are to sign up to an Emissions Unit Register, for trading purposes, by March 2009 or wait until 2010.

The Forest Owners' Association representative attended international pre Kyoto revision meetings and argued for being able to replant on alternative land without incurring penalties of deforestation and also being able to take into account long term carbon sequestration within the trees when they are cut. Responses are awaited.

Forestry values increased because shipping rates had fallen over 90% from their highs (!), the price of fuel fell, and the consultant has instituted a new growth model considered to be more robust for carbon measurement.

OVERVIEW

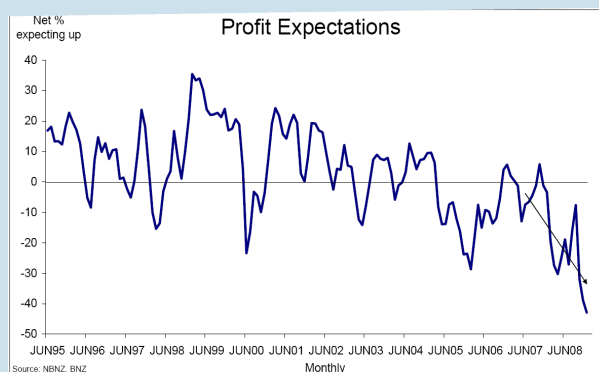
World

- Markets, both equity and income, are and will continue to be highly susceptible to any news, good or bad. Improvement is not expected until market volatility stops, and until much of the recession has worked through. *Repeated from last Quarterly Report.*
- World unemployment expected to rise dramatically including in China.
- More taxpayer money to be used to give confidence to consumers to spend and investors to hold tight. President Obama has raised additional USD 1trillion plus package since induction, mainly tax cuts and infrastructure.
- Oil price could still fall further.
- World GDP expected range 0.5% to -0.5%. Concern China's GDP falling through 6% and below. Japan could fall into depression soonest.
- Question if major currencies all under threat ie USD, Euro and Yen – another Bretton Woods? – gold the currency?
- Country budget deficits to explode – UK 8-9%, USA 7-8%.
- Earnings per share to fall – bonds and cash to deliver minimal income.
- Pragmatic recession realities to reprioritise reducing carbon emissions – Kyoto a back seat.

New Zealand and Australia

- Australia to provide multi billion dollar packages (AUD 40bn so far) to support economy. New Zealand to hold an Employment Conference/boost infrastructure/reduce costs, with more expected.
 - Wholesale deposits not yet covered by the Government guarantee. Banks seem to be paying more for their funding and mortgage interest rates not falling as fast as the Official Cash Rate (3.5% on 29 January and expected to fall to 2% or 2.5%).
 - Banks requiring more security on house lending and control over business lending.
 - Government, Local Authorities and New Zealand companies need to raise debt in the market.
 - NZD and AUD can be expected to fall further against the USD (NZD currently 50c) resource prices (metals, coal) and commodities (milk, wool, wood) expected to fall further, despite weak New Zealand dollar. Milk price already fallen from high of \$7.90 and now \$5.10 per kg.
 - Forestry to remain weak, but Emissions Trading Scheme should add value.
 - Housing prices dependent on unemployment rates.
 - Inflation in New Zealand expected to fall further.
- Business confidence to remain weak (see graph) although some sections of the population (ie those in jobs) should benefit from lower interest rates and many prices falling.

NZ Business Survey



BNZ Capital - 23 February 2009

- Unemployment to increase.
- The retired will suffer from low investment returns.



LOOKING FORWARD *continued*

ASSET STRATEGY FOR THE MARCH 2009 QUARTER

Growth, Balanced and Conservative Pools

Inward cash flows are being tilted towards the New Zealand Fixed Interest sector, some shares are to be sold and if equity sectors continue to fall in value, it is not anticipated there will be material additional investment.

Currency hedging is to be maintained at around 26-35% on Australian Equities and at about 40-50% on Overseas Equities. The Overseas Fixed Interest portfolio is 100% currency hedged.

February 2009

INVESTMENT STRATEGY

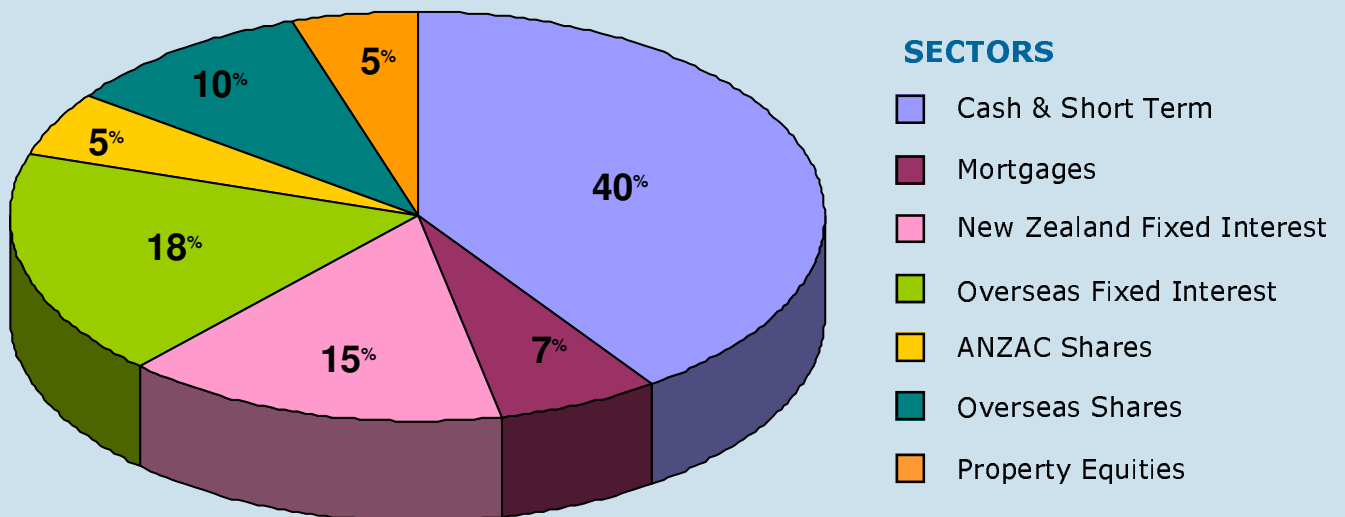
This pool invests mainly in Cash and Fixed Interest investments, with a small exposure to growth assets such as Shares and Listed Property.

Risk profile is Low.

SECTOR RETURNS

INVESTMENT TYPE	GROSS RETURNS FOR THE DECEMBER QUARTER %
	Conservative
Cash and Short Term	2.0
Mortgages	4.1
NZ Fixed Interest	6.5
Overseas Fixed Interest	-2.2
ANZAC Equities	-14.0
Overseas Equities	-11.4
Property Equities	-13.5
TOTAL	-0.8

AVERAGE INVESTMENT ASSETS PERCENTAGES FOR THE DECEMBER 2008 QUARTER



INVESTMENT STRATEGY

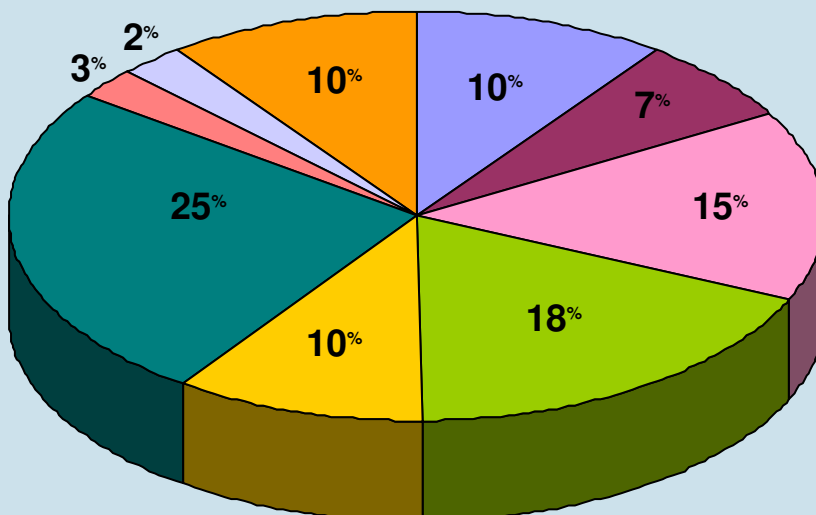
This pool has a moderate exposure in Cash and Fixed Interest investments, and a moderate exposure to growth assets such as Shares, Listed Property and Alternative Assets.

Risk profile is Medium

SECTOR RETURNS

INVESTMENT TYPE	GROSS RETURNS FOR THE DECEMBER QUARTER %
	Balanced
Cash and Short Term	2.0
Mortgages	4.1
NZ Fixed Interest	6.5
Overseas Fixed Interest	-2.2
Alternative Assets	0.3
ANZAC Equities	-14.0
Overseas Equities	-11.4
Property Equities	-13.5
Forests and Land	6.4
TOTAL	-4.4

AVERAGE INVESTMENT ASSETS PERCENTAGES FOR THE DECEMBER 2008 QUARTER



SECTORS

- Cash & Short Term
- Mortgages
- New Zealand Fixed Interest
- Overseas Fixed Interest
- ANZAC Shares
- Overseas Shares
- Forests & Land
- Alternative Assets
- Property Equities

INVESTMENT STRATEGY

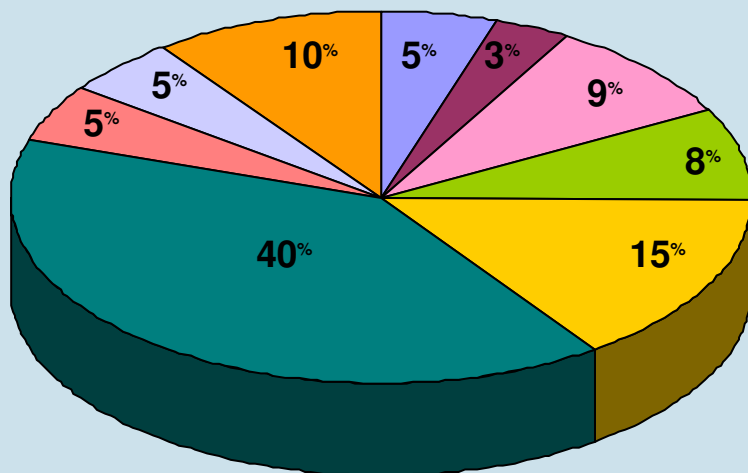
This pool invests mainly in growth assets such as Shares, Listed Property and Alternative Assets, with a small exposure to Fixed Interest and Cash.

Risk profile is Medium to High.

SECTOR RETURNS

INVESTMENT TYPE	GROSS RETURNS FOR THE DECEMBER QUARTER %
	Growth
Cash and Short Term	2.0
Mortgages	4.1
NZ Fixed Interest	6.5
Overseas Fixed Interest	-2.2
Alternative Assets	0.3
ANZAC Equities	-14.0
Overseas Equities	-11.4
Property Equities	-13.5
Forests and Land	6.4
TOTAL	-7.1

AVERAGE INVESTMENT ASSETS PERCENTAGES FOR THE DECEMBER 2008 QUARTER



SECTORS

- Cash & Short Term
- Mortgages
- New Zealand Fixed Interest
- Overseas Fixed Interest
- ANZAC Shares
- Overseas Shares
- Forests & Land
- Alternative Assets
- Property Equities



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