

OVERVIEW

RETURNS - For the June Quarter

The Koinonia Fund Growth and Balanced Pools produced a positive return of 0.4% gross, while the Koinonia Fund Conservative Pool made 0.6% gross for the quarter. The sectors that made the best returns were Mortgages, New Zealand Fixed Interest, Alternative Assets and Overseas Equities.

INVESTMENT MARKETS - For the June Quarter

Debt and poor assets in the banking sector were a prime cause of weak economic conditions. Billions of dollars being written off financial assets quarterly has become common place.

There was an official interest rate reduction to 2% in the USA. This was neutral for the US dollar while Australia's, Canada's and New Zealand's currencies were driven up by strong demand for resources.

Long bond rates rose — substantially in most countries but fell in New Zealand. Only Europe increased their cash rate.

Some commodity prices rose; oil to over US\$140 per barrel, gold to US\$924 per troy oz.

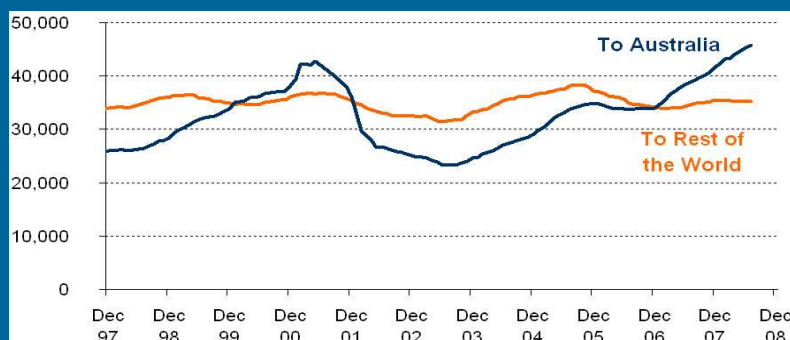
Except for Japan and Canada, most share markets fell, substantially in the case of New Zealand.

The New Zealand yield curve remained substantially inverted awaiting a rate reduction.

Housing sales weakened with a total of 20 finance companies totalling \$3bn+ in receivership. Mortgage lending has tightened. There were large food price increases and petrol reached \$2.20 per litre.

The small tax cuts in October are not expected to boost household spending. There has been increasing migration outflow of talent to Australia (see graph).

PERMANENT AND LONG-TERM MIGRATION (NET, ANNUAL)



Source: Statistics New Zealand

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



INVESTMENT SECTORS

Returns are gross unless otherwise stated.

Cash and Short Term

The Official Cash rate in New Zealand stayed at 8.25% for the fourth quarter end while the USA again cut interest rates and its cash rate is now 2%. UK also cut their rates by 0.25%, while Europe, concerned about inflation, achieved much criticism with France's Trichet (new head of the European Central Bank) increasing rates.

Residential Mortgages

The Pension Board's floating rate increased to 10.45%. The three year fixed rate retreated to 8.95% which was the same as at 31 December 2007.

Fixed Interest

Inflation concerns caused noticeable rises in 10 year rates across all of the regions we monitor, excluding New Zealand, where they fell slightly to 6.34%. In the USA the ten year rate ended at 3.975% while Japan had the highest percentage increase and finished at 1.6%.

New Zealand Fixed Interest

There was some improvement in the Board's bonds which had suffered from rerating downwards in the previous period and now outperformed for the quarter.

Overseas Fixed Interest

Both AMP and PIMCO underperformed for the quarter. PIMCO manages approximately 70% of the sector and AMP 30% of the sector.

Alternative Strategy Assets

The Board ceased investing in one of the alternative asset managers (NZAM). All funds were returned from NZAM over a period of four months. DCP III delivered a strong return for the year to March and returned substantial amounts of capital. In the June quarter it made a further call. JB Were Trans Tasman No. 7 has investments in Kathmandu, Coates Hire and Vision Senior Living. Both Managers invest directly into small companies.

Australian and New Zealand Equities

Within this sector, 40% of investments are in New Zealand and 60% in Australia. New Zealand returned -8.7% and Australia 0.7% in AU dollars for the quarter. The total return including hedging gains of 1.5% was 3.8% ahead of the benchmark in NZ dollars.



INVESTMENT SECTORS

New Zealand Companies

Best – Port of Tauranga (dairy products), Contact Energy (British Gas takeover expectations).

The other companies in the portfolio made negative returns.

Australian Companies

Best – Woodside, BHP and Worley Parsons (all resource related).

Many other stocks made negative returns and particularly those in the finance sector. The Koinonia Fund had exposure to only one banking stock in Australia, and this helped to improve the portfolios performance against the index.

Overseas Equities

Most of the funds are with AMP Capital's Responsible Investment Leaders Global Shares Fund, and additional funds were added. The remaining monies were in unscreened index funds and cash. This sector has outperformed the benchmark for the quarter, and this has broken the underperformance trend which occurred while the funds were with the previous manager.

Property Equities

Investments are held in a number of property companies in New Zealand and Australia.

Forests

The proposed legislation for New Zealand's Emissions Trading Scheme is intending to capture forestry from 1 January 2008, including onerous penalties for non replanting pre 1990 forests. No other sector, e.g. transport, is due to be brought in until 2010. The Pension Board made a submission to the Finance and Expenditure Select Committee which appears to have resulted in an improved taxation outcome when relinquishing emission units purchased for pre 1990 forests. It is expected that the Board's forests should escape this tax by allowing the area to regenerate. The Board has also written to several politicians about the impact of the proposed Bill, which has been reported to the House but at time of writing had not had its second reading as it was waiting for sufficient support from political parties.

Forestry land receives returns from rentals.



LOOKING FORWARD

OVERVIEW

World

- Markets, both equity and income, are still highly susceptible to any news, good or bad. Improvement is not expected until market volatility stops.
- Expect bad debt to require consolidation of some large investment houses internationally, dependent upon their non recoverable assets.
- Consumer confidence and spending may impact on business particularly manufacturing. Expect further layoff of employees. The next round of profit announcements September/October will be crucial.
- Oil has peaked at over US \$150 per barrel and seems to be retreating.
- Commodity markets have had excessive rises and can be expected to ease over the rest of 2008. Relatively carbon friendly energy, e.g. gas, may be an exception along with food staples.
- China and Asia are expected to outperform the developed world but with decreasing certainty.
- World growth slowing, and inflation concerning in the short term.

New Zealand and Australia

- Managed funds made their first negative quarterly return in Australia in 25 years. Managers say they are reducing their allocation to Australian equities and will increase exotics.
- All sectors are showing weakness except resources. The banking sector particularly has surprised analysts negatively and more dark secrets are expected to be revealed. NAB and ANZ in particular are negatively affected.
- In New Zealand, banks are discovering they need to pay more for their funding, in part because of their owners write offs.
- The New Zealand bond market is at a crossroads. Low issuance of Government debt, suspicion of the banking sector, less favourable terms being offered by local bodies, forward projections of companies needing to raise debt, leaves the local market vulnerable, and the seemingly attractive option of supranational AAA bond issuers with an unknown track record in New Zealand appears the best option. If you are not certain about the big banks where do you put your money?
- The Official Cash Rate dropped to 8% on 24 July. Don't expect mortgage rates to fall substantially. NZ dollar is falling and could be expected to fall further.
- The stock market has been hit hard, with speculation again about its viability.
- Houses are having difficulty in selling but expect prices to fall further if businesses contract and employment reduces.
- Personal taxation reductions which commence in October may fail to offset increasing household costs, especially food and petrol.

ASSET STRATEGY FOR THE SEPTEMBER 2008 QUARTER

Growth, Balanced and Conservative Pools

Assets are to be maintained nearby the SIPO benchmarks.

Currency Hedging is to be maintained at the lower end of the range at about 26-30% for both Australian and Overseas Equities. Overseas Fixed Interest is 100% currency hedged.

INVESTMENT STRATEGY

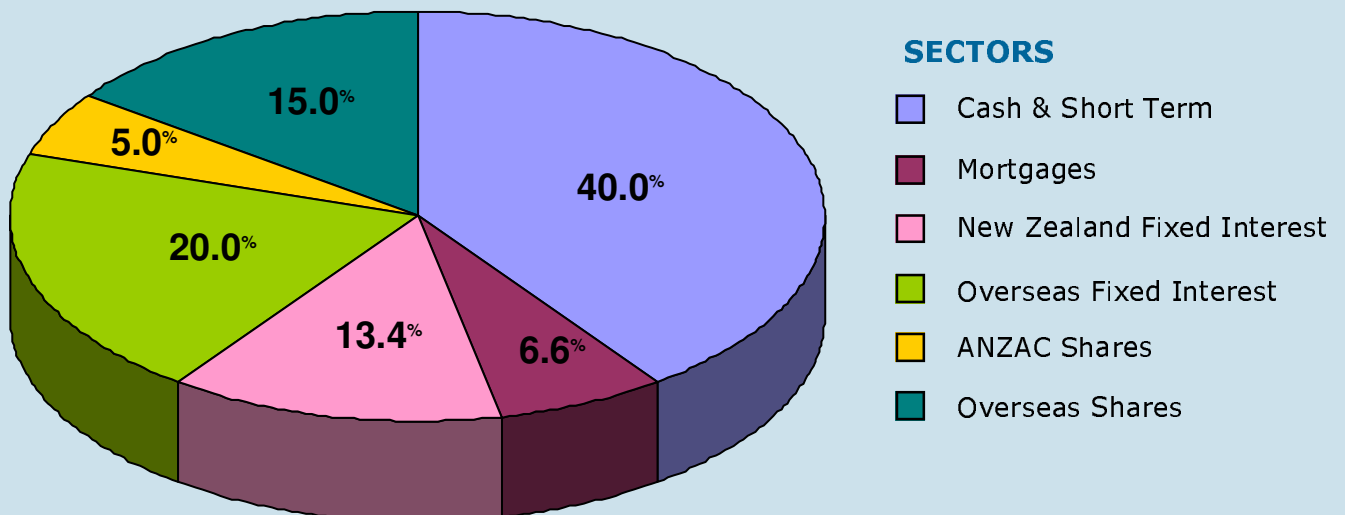
This pool invests mainly in Cash and Fixed Interest investments, with a small exposure to growth assets such as Shares and Listed Property.

Risk profile is Low.

SECTOR RETURNS

INVESTMENT TYPE	GROSS RETURNS FOR THE JUNE QUARTER %
	Conservative
Cash and Short Term	0.7
Mortgages	3.5
NZ Fixed Interest	3.0
Overseas Fixed Interest	-1.0
Alternative Assets	
ANZAC Equities	0.3
Overseas Equities	1.0
Property Equities	-5.3
Forests and Land	
TOTAL	0.6

AVERAGE INVESTMENT ASSETS PERCENTAGES FOR THE JUNE 2008 QUARTER



INVESTMENT STRATEGY

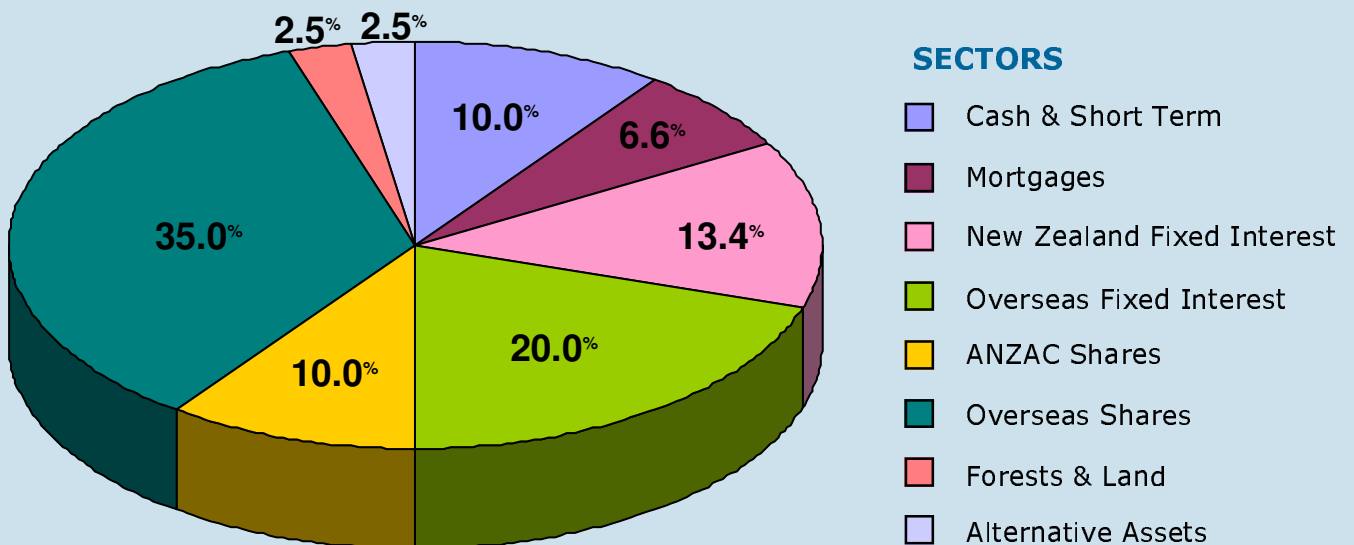
This pool has a moderate exposure in Cash and Fixed Interest investments, and a moderate exposure to growth assets such as Shares, Listed Property and Alternative Assets.

Risk profile is Medium

SECTOR RETURNS

INVESTMENT TYPE	GROSS RETURNS FOR THE JUNE QUARTER %
	Balanced
Cash and Short Term	0.7
Mortgages	3.5
NZ Fixed Interest	3.0
Overseas Fixed Interest	-1.0
Alternative Assets	4.5
ANZAC Equities	0.3
Overseas Equities	1.0
Property Equities	-5.3
Forests and Land	0.7
TOTAL	0.4

AVERAGE INVESTMENT ASSETS PERCENTAGES FOR THE JUNE 2008 QUARTER



INVESTMENT STRATEGY

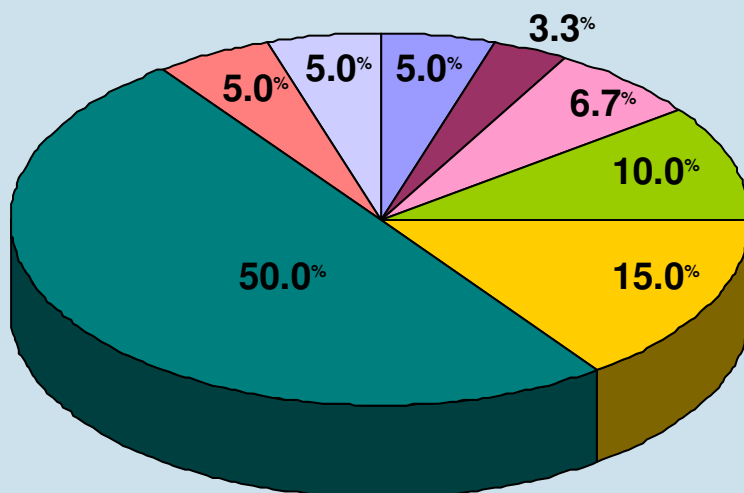
This pool invests mainly in growth assets such as Shares, Listed Property and Alternative Assets, with a small exposure to Fixed Interest and Cash.

Risk profile is Medium to High.

SECTOR RETURNS

INVESTMENT TYPE	GROSS RETURNS FOR THE JUNE QUARTER %
	Growth
Cash and Short Term	0.7
Mortgages	3.5
NZ Fixed Interest	3.0
Overseas Fixed Interest	-1.0
Alternative Assets	4.5
ANZAC Equities	0.3
Overseas Equities	1.0
Property Equities	-5.3
Forests and Land	0.7
TOTAL	0.4

AVERAGE INVESTMENT ASSETS PERCENTAGES FOR THE JUNE 2008 QUARTER



SECTORS

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



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