



OVERVIEW

GROSS RETURNS *

For the June Quarter

Conservative Pool	-0.6%
Balanced Pool	-2.6%
Growth Pool	-4.4%

For the Growth, Balanced and Conservative Pools, modest positive returns from Cash and Fixed Interest were overrun by the negative performance from Equities.

The sectors that made the best returns for the quarter were Forests, NZ Fixed Interest and Overseas Fixed Interest.

INVESTMENT MARKETS - For the June Quarter

Financial & Economic Issues

- The positive global investment environment from the first 3 months of 2010 dissipated in the June quarter as several issues arose:
 - ◇ It became apparent that the boost from quantitative easing (a form of monetary policy used to increase money supply) was not resulting in good economic growth. The consumer put a clamp on their wallets.
 - ◇ China, the expected rescuer of the developed world, dampened down its own growth, e.g. with reduced purchasing of raw materials which hard hit Australia and by restricting loans for residential properties in the larger cities of Shanghai, Beijing and Guangzhou.
 - ◇ The vulnerable position of European banks surfaced. PIIGS (Portugal, Ireland, Italy, Greece and Spain) were the greatest concerns and there was high expectation that Greece would default on their Government Stock (Treasury debt) or have to leave the Euro. The strong will of Germany, which is dominant in the European Central Bank, and the IMF allowed Greece to be bailed out.
 - ◇ Equity markets took fright, partly due to lower earnings expectations.
 - ◇ The "flight to quality" meant investors rushed into Government Stock that they did trust i.e. German, American and Japanese so that long dated bond prices rose to record highs.
 - ◇ The New Zealand and Australian dollar fell in value with this large movement of money into reliable Government Stock.
- In New Zealand:
 - ◇ Housing and commercial property remained subdued.
 - ◇ Commodity exports continued to rise especially milk products and forestry to China.
 - ◇ The Reserve Bank considered economic growth to be sufficiently strong to raise the official cash rate to 2.75%; the first rise since July 2007.

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



Food For Thought *Moral Hazard?*

Responses by developed country governments' to the Global Financial Crisis (GFC) have been to reward borrowers by providing funding support for lending institutions which are seen as mainly responsible for the financial collapse. Savers have been disadvantaged from interest rates being reduced and investors in equities having to refinance their own companies.

Can economies survive if the profligate benefit while the careful suffer?

INVESTMENT SECTORS COMMENTARY

Cash

The Official Cash Rate in New Zealand was increased to 2.75%. Australia increased their rate to 4.5%. Elsewhere in the developed world financial turmoil caused major economies to keep interest rates at record lows e.g. Japan 0.10% and Europe 1.0%.

Residential Mortgages

The Pension Board's floating rate decreased to 5.95% during the quarter, and the three year fixed rate dropped to 7.10%.

New Zealand Fixed Interest

In New Zealand, the interest rate on the 11 year bond fell to a low of 5.34%, as did other bond rates, leading to a reasonable return from the sector.

N.B. Decreases in interest rates mean the value of the bonds increase.

Overseas Fixed Interest

The international bond markets also gained from interest rates on long bond decreasing e.g. in the USA to 2.9% and in Europe, to 2.5%.



INVESTMENT SECTORS *continued*

Private Equity

This sector has two private equity managers in charge of three funds. An investment was made by one fund and a distribution made by another. The third fund is now closed.

Australian and New Zealand Equities (ANZAC)

Within the ANZAC Equities sector, approximately 30% of investments were in New Zealand and 70% in Australia. New Zealand returned -7.3% and Australia -12.8% after hedging into New Zealand dollars for the quarter. The combined return after hedging was better than benchmark.

New Zealand Companies

Best – Auckland International Airport, Fletcher Building, Port of Tauranga, Ryman Healthcare.

Australian Companies

Best – Adelaide Brighton, Woolworths, Meyer.

Overseas Equities

The pullback in the global equity markets translated into a negative return in Overseas Equities in New Zealand dollars and after hedging. The Board holds an investment in AMP Responsible Investment Leaders' Fund and as well manages its own portfolio. This is to ensure that most of the investments can be screened against Responsible Investment policies.

The New Zealand dollar return after hedging was much better than benchmark.

Property Equities

The Board's Property Equities portfolio is allocated approximately 37% to New Zealand and 63% to Australia and produced a negative return which was slightly below benchmark. Currency hedging made a positive contribution.

Forests

With log prices still rising due to strong demand from China and India and a record drop in freight rates because of flagging demand for metals and coal which use the same ships, the values of the forests increased. Allocated carbon credits were sold.

ASSET STRATEGY FOR THE SEPTEMBER 2010 QUARTER

All asset sectors in each investment pool are expected to be held at or near their benchmark allocations.

Currency hedging should be around 50% on both Overseas Equities and Australian Equities. Overseas Fixed Interest is 100% currency hedged.

July 2010



CONSERVATIVE POOL

INVESTMENT STRATEGY

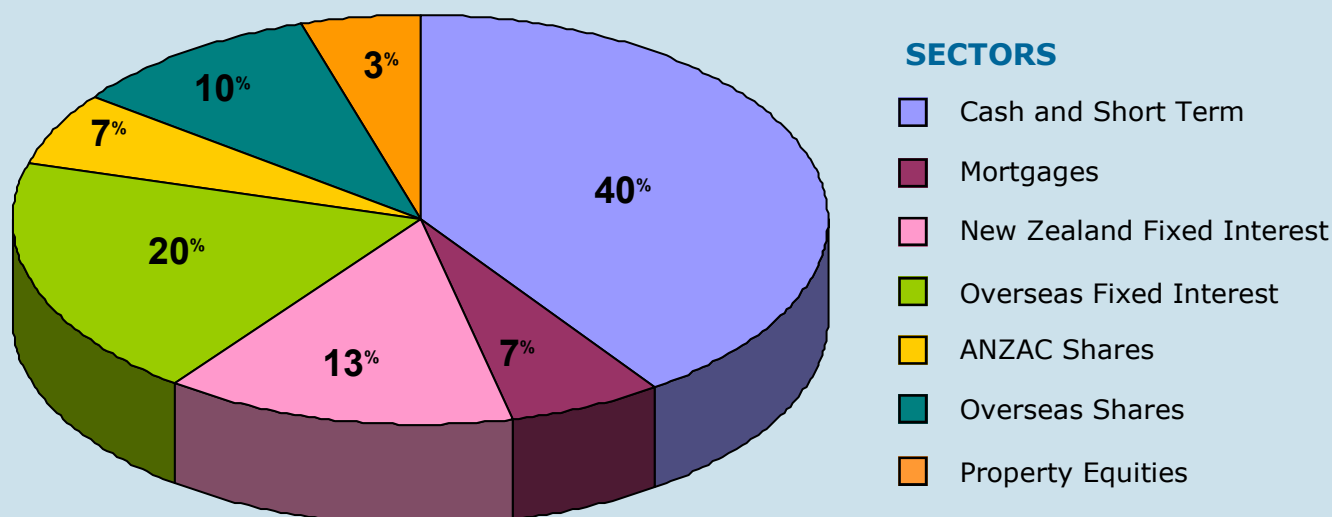
This pool invests mainly in Cash and Fixed Interest investments, with a small exposure to growth assets such as Shares and Listed Property.

Risk profile is intended to be low.

SECTOR RETURNS

INVESTMENT TYPE	GROSS RETURNS FOR THE JUNE QUARTER %
	Conservative
Cash and Short Term	0.5
Mortgages	1.2
NZ Fixed Interest	2.3
Overseas Fixed Interest	2.0
ANZAC Equities	-11.0
Overseas Equities	-7.5
Property Equities	-4.3
TOTAL	-0.6

AVERAGE INVESTMENT ASSETS PERCENTAGES FOR THE JUNE 2010 QUARTER





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 Private Equity.

Risk profile is intended to be medium

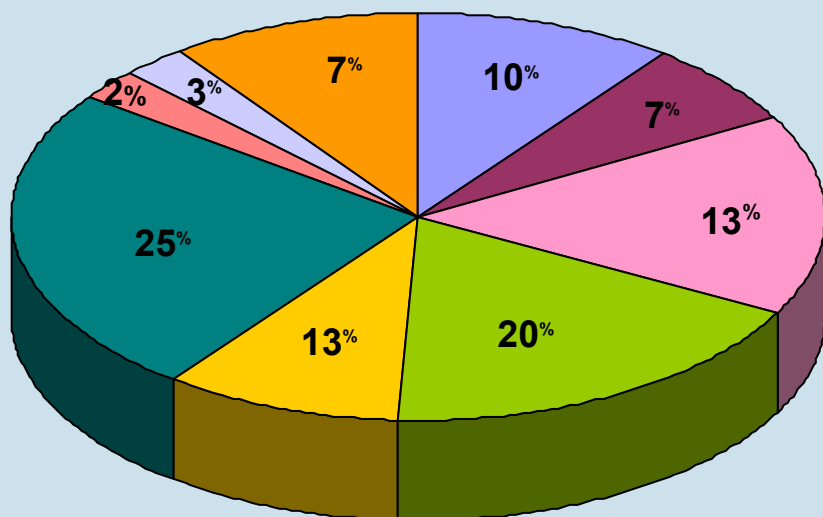
SECTOR RETURNS

INVESTMENT TYPE	GROSS RETURNS FOR THE JUNE QUARTER %
	Balanced
Cash and Short Term	0.5
Mortgages	1.2
NZ Fixed Interest	2.3
Overseas Fixed Interest	2.0
Private Equity	0.4
ANZAC Equities	-11.1
Overseas Equities	-7.5
Property Equities	-4.3
Forests and Land	10.8
TOTAL	-2.6

AVERAGE INVESTMENT ASSETS PERCENTAGES FOR THE JUNE 2010 QUARTER

SECTORS

- Cash and Short Term
- Mortgages
- New Zealand Fixed Interest
- Overseas Fixed Interest
- ANZAC Shares
- Overseas Shares
- Forests and Land
- Private Equity
- Property Equities





GROWTH POOL

INVESTMENT STRATEGY

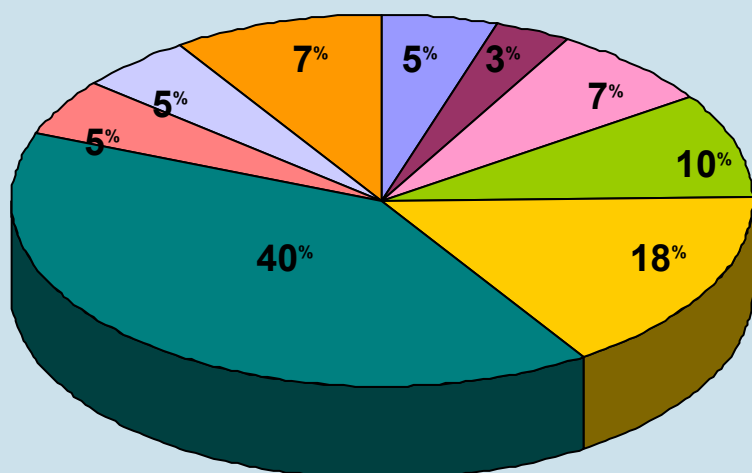
This pool invests mainly in growth assets such as Shares, Listed Property and Private Equity, with a small exposure to Fixed Interest and Cash.

Risk profile is intended to be medium to high.

SECTOR RETURNS

INVESTMENT TYPE	GROSS RETURNS FOR THE JUNE QUARTER %
	Growth
Cash and Short Term	0.5
Mortgages	1.2
NZ Fixed Interest	2.3
Overseas Fixed Interest	2.0
Private Equity	0.4
ANZAC Equities	-11.1
Overseas Equities	-7.5
Property Equities	-4.3
Forests and Land	10.7
TOTAL	-4.4

AVERAGE INVESTMENT ASSETS PERCENTAGES FOR THE JUNE 2010 QUARTER



SECTORS

- Cash and Short Term
- Mortgages
- New Zealand Fixed Interest
- Overseas Fixed Interest
- ANZAC Shares
- Overseas Shares
- Forests and Land
- Private Equity
- Property Equities



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