



OVERVIEW

RETURNS - For the September Quarter

The Koinonia Fund Growth Pool produced a negative return of -3.5% gross, the Balanced Pool made -2.0% gross and the Conservative Pool made 0.0% gross for the quarter. All Pools suffered from negative returns in Equities and Overseas Fixed Interest. The negative Overseas Fixed Interest sector returns were caused by large write-downs of debt instruments, particularly in the American market. This is an exceptional occurrence for this sector. The sectors that made the best returns were New Zealand Fixed Interest, Property Equities, Cash and Mortgages.

INVESTMENT MARKETS - For the September Quarter

People started to talk about their concerns at the viability of the commercial debt market which was in a credit crisis. gyrations in the markets, both equity and debt, increased considerably. There was fear about which institution was going to collapse next. There were sharp equity market movements upwards on the announcement of a USD\$700bn package (referred to as the 'TARP' see following commentary) to support fraught financial institutions. The result of this was that there was the biggest:

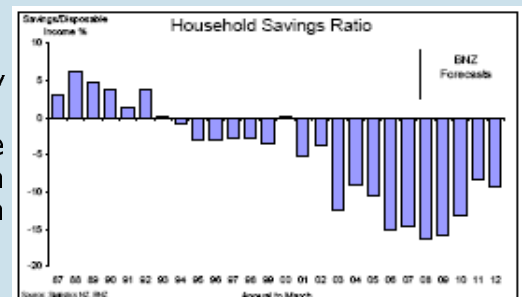
- Equity market jump (upwards) since 1987.
- Price increase in oil ever.
- Upwards movement in the gold price.

Towards the end of September, when markets were awaiting confirmation of the USD\$700bn package:

- US Treasurer Paulson was down on his knees to the Leader of the House, Nancy Pelosi and this did not signal confidence to the markets.
- There was the biggest point fall in the USA equity market in history.

In New Zealand:-

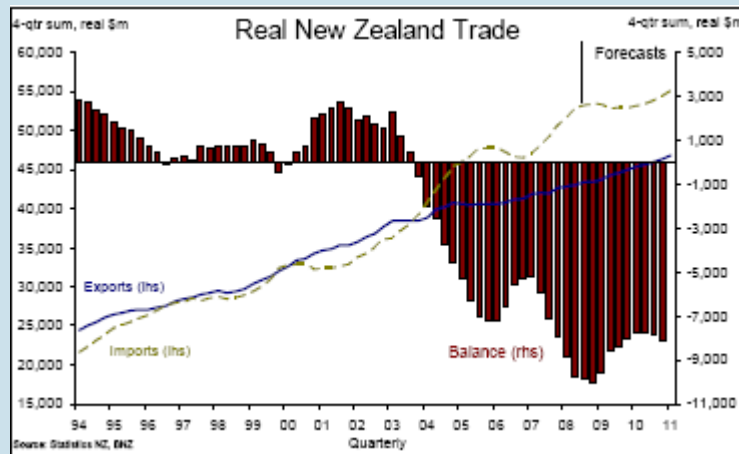
- Food prices rose more in the August month than in any month in the last 19 years.
- Household debt at 162% of earnings was the same percentage as in the UK where house prices have fallen dramatically. New Zealand's household debt was even higher than the USA percentage of 133%.



BNZ Economy Watch 26 September 2008

Household savings have been negative since 1994.

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



BNZ Markets Outlook - 29 September 2008

The trade deficit is equal to 122 containers of imported goods compared with 100 containers being exported.

- The trade deficit was over 8% of GDP.
- The household savings ratio remained poor.
- The Government debt ratio at just over 20% of GDP was very low by world standards. This is positive for New Zealand.
- New Zealand had had two quarters of recession and may expect a third.

Other issues for New Zealand were:

- New Zealanders looked towards parliamentary elections with an unusually high participation in media and surveys.
- The yield curve for bonds remained highly inverted i.e. rates were higher at the short maturities than those which matured years away.
- The New Zealand dollar fell against the US dollar as investors moved to the "safe" USD.
- Households felt the pinch with higher food, petrol prices and mortgage interest rates.

The biggest looming political issue appeared to be Russia's increasing involvement in Europe.

POST SCRIPT

"As people we are just not smart enough to forecast what would happen." - Alan Greenspan (ex Governor of the Federal Reserve in USA) on his and others inability to foresee what was to occur in the sub-prime market when reporting to the Congress on 23 October 2008.



INVESTMENT SECTORS

Returns are gross unless otherwise stated.

Cash and Short Term

The Official Cash Rate in New Zealand was cut by 0.75% to 7.50%, while most other major economic blocks held their rates. Australia decreased their rates by 0.25% to 7.0%.

Residential Mortgages

The Pension Board's floating rate dropped to 10.20%. The three year fixed rate retreated to 8.65% slightly below that of twelve months ago.

Fixed Interest

Concerns about inflation worldwide have been eclipsed by a turmoil in the Fixed Interest markets which started to price in a recession. Long bond rates fell, particularly in Australia and Europe, which flowed through to New Zealand and led to good gains from the portfolios.

New Zealand Fixed Interest

Bonds in New Zealand with a 10 year maturity fell from 6.34% to 5.68%. The portfolio has recouped its previous under performance compared with the New Zealand Government Stock index.

Overseas Fixed Interest

Ten year bonds in the USA only fell from 3.9% to 3.8% but Europe moved from 4.6% to 4.0%, and Australia from 6.45% to 5.40%. The Pension Board uses fund managers AMP and PIMCO to manage monies in this sector. Both have struggled and delivered underperformance compared with the benchmarks. Much of this underperformance is attributed to the requirement to mark the securities to current market prices. Lehman Brothers collapsed and the US Government shored up the major providers of mortgages in the US (Fanny Mae and Freddie Mac), and as well the investment arms of broking houses wrote off large loses. These market disruptions meant that many holders of commercial paper, mortgages and bonds found they were holding illiquid assets. At the end of September, the Treasury proposed the Troubled Asset Relief Programme (TARP) which was passed by both Houses of the US Government. The event was quoted as "the day socialisation came to Wall Street".

Alternative Strategy Assets

The Fund has investments with Direct Capital (DCP III fund) and Goldman Sachs JBWere (Trans Tasman No.7 fund). DCP III made a call in order to purchase 45% of New Zealand King Salmon Ltd, and take a stake in Rodd & Gunn Ltd. DCP III then held ten investments. The net internal rate of return (IRR) is 32.6%. Trans Tasman No.7 had not calculated a market value for all of its investments and the Board's investment was calculated as a proportion of the net asset value of the total fund, which so far was still below funds subscribed.

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 -0.4%, and Australia -11.4% in Australian dollars (equal to -16.5% in NZ dollars after currency movements). The total return was -8.6%.



New Zealand Companies

Best – Fisher & Paykel Healthcare, Freightways, Fletcher Building (all made some recovery on previous negativity).

Australian Companies

Best – BT Investment Management (returns from Investment Management), Toll (expect to sell Virgin Airways), Westpac (perceived as a relatively strong bank).

Many other stocks made negative returns, particularly those in resources and oil.

Overseas Equities

Most of the funds are with AMP Capital's Responsible Investment Leaders Global Shares Fund, who have changed a manager from Dexia to Lazard Asset Management. The remaining monies are unscreened (for responsible investment standards) Index Funds and Cash to try and provide some stability in returns.

Property Equities

Investments are held in a number of property companies in New Zealand and Australia which recouped from previous negativity towards this sector, and unlike the other equity sectors made a positive return.

Forests

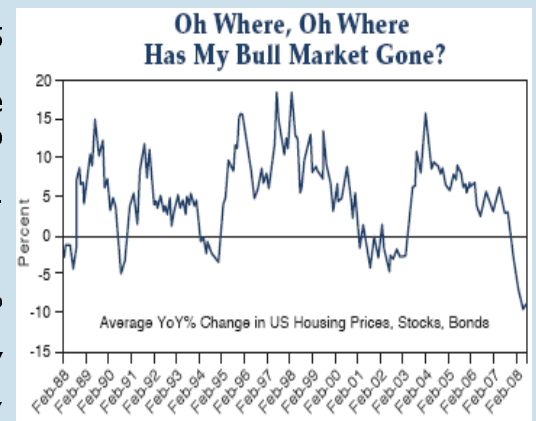
Legislation for New Zealand's Emissions Trading Scheme was passed days before the House rose prior to the General Election. Changes to the Taxation Act and GST were passed at the same time. Unsurprisingly, the requirement for owners of pre 1990 forests remained either to replant or revegetate. To offset those penalties, Government is proposing to make a small allocation of emissions units, equal to approximately 10% of the liability of the Pension Board's forest. A draft plan to allocate the New Zealand units is in circulation with submissions due on 28 February 2009. This will bring in a modest amount of income for both forests, Forest Heights and Hapua.

Log prices remained nonviable.

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.
- The consolidation of large investment houses or banks will occur internationally, dependent upon their inability to self fund and their non-recoverable assets. Europe has set up €1.3tr funding and USA are working on additional multi billion dollar packages. Expect Governments in the western world and IMF to take a united stance to support financial institutions.
- Consumer confidence and spending will increasingly impact on businesses, especially manufacturing. Expect considerable layoff of employees. The current round of profit announcements are crucial and are pointing to recession.
- Oil peaked at US\$150 per barrel and has retreated to US\$65 at the end of October and is expected to fall further.
- Commodity markets have had excessive rises and can be expected to fall aggressively over the rest of 2008 and into 2009. An exception may be food staples.
- China's and other Asian economies are still expected to outperform the developed world but with decreasing certainty.
- World growth is slowing and inflation ceases to be a concern. Forecast 2009 GDP for most areas of the world is below 1% (USA 0%). Inflation ceases to be a concern.
- Describing the economic/financial situation, the word "crisis" is used repeatedly. Past Governor of the Federal Reserve, Alan Greenspan, calls it a "once in a century credit tsunami".



Source: PIMCO

Oct 08

New Zealand and Australia

- Investors are leaving managed funds to place their savings with bank guaranteed deposits. In New Zealand, the impact will be even more negative for managed funds if wholesale deposits are not covered by the guarantee.
- In both countries, banks are finding they need to pay more for their funding. Australian owned banks in New Zealand have to raise a substantial amount of their funding offshore, and a crucial time for them will be the refinancing of \$40bn (mainly in mortgages) which are due before the end of 2008. The Reserve Bank in New Zealand will provide funding against the banks mortgage books.
- Some New Zealand companies and local bodies are finding it difficult to raise debt because of the lack of government guarantee. Projects, takeovers and start-ups are and will continue to be vulnerable and may not proceed in this market.
- The Official Cash Rate in New Zealand dropped to 6.5% on 23 October, following the same 1% decrease in Australia two weeks earlier. Longer term mortgage interest rates may not fall substantially because of the above financial market dislocations.
- NZD and AUD can be expected to fall against the USD while the NZD may be stronger than the AUD.
- All investment sectors are now showing substantial downturns – particularly so in Australia as the prices for commodity stocks, both resources and oils, are falling faster than those of the rest of the economy.
- There is positive news for New Zealand forestry with shrinking wood supply from Russia, while the Baltic Freight Index has fallen 85% in USD from its May high. The Forest Owners' Association is working hard on alternative proposals for managing allocation and liability of post 1990 carbon credits, which will need to be negotiated with an incoming Government. The Kyoto Treaty itself is in the process of initial renegotiation in Rome for effect from 2013. Outcomes of both of these could be more positive for the Board's post 1990 forests.



LOOKING FORWARD *continued*

- Housing prices should fall further with over 130,000 in New Zealand reported to be worth less than their mortgages.
- Inflation in New Zealand for the year to September at 5.1% was the highest since 1990 but is expected to fall rapidly.
- New Zealand is contemplating an "L" shaped economic cycle meaning that it is expected there will be a sharp slowdown followed by a protracted period of slower economic activity before a recovery is envisaged.
- Business confidence rebounded early October but is now falling and expected to remain substantially flat.
- New Zealand's biggest company, Telecom, has recorded its lowest price in 15 years!

ASSET STRATEGY FOR THE DECEMBER 2008 QUARTER

Growth, Balanced and Conservative Pools

More Cash will be held within the Pools and if equity sectors continue to fall in value, it is not anticipated that there will be material additional investment.

Currency Hedging is to be maintained at around 28-32% on Australian Equities and at about 40-50% on Overseas Equities. The Overseas Fixed Interest portfolio is 100% currency hedged.

October 2008

INVESTMENT STRATEGY

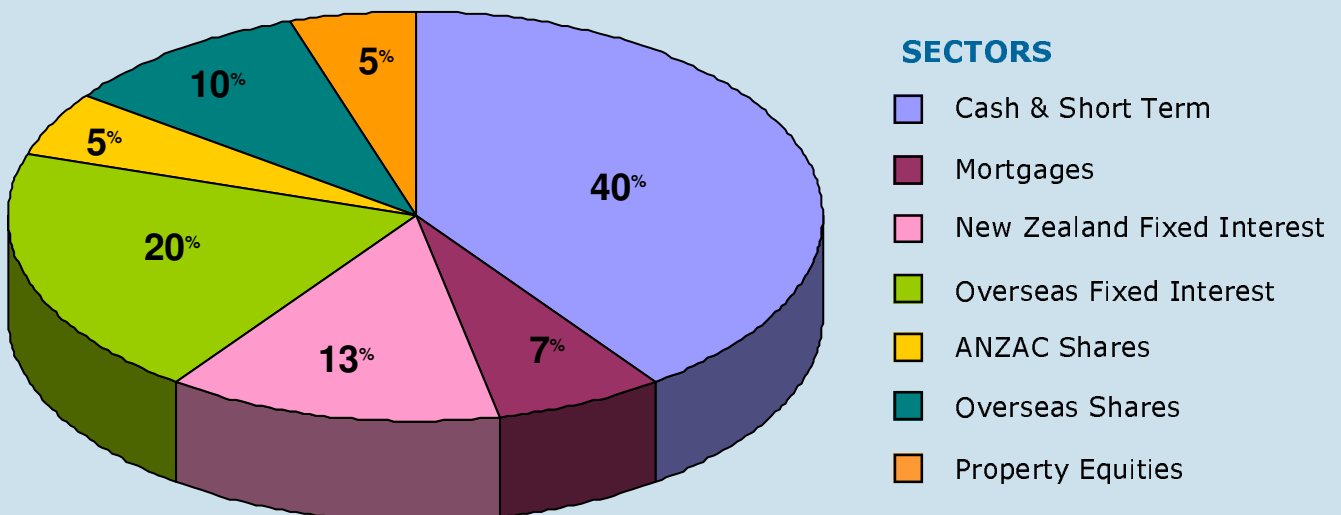
This pool invests mainly in Cash and Fixed Interest investments, with a small exposure to growth assets such as Shares and Listed Property.

Risk profile is Low.

SECTOR RETURNS

INVESTMENT TYPE	GROSS RETURNS FOR THE SEPTEMBER QUARTER %
	Conservative
Cash and Short Term	2.8
Mortgages	2.8
NZ Fixed Interest	4.4
Overseas Fixed Interest	-4.5
ANZAC Equities	-8.6
Overseas Equities	-6.9
Property Equities	2.9
TOTAL	0.0

AVERAGE INVESTMENT ASSETS PERCENTAGES FOR THE SEPTEMBER 2008 QUARTER



INVESTMENT STRATEGY

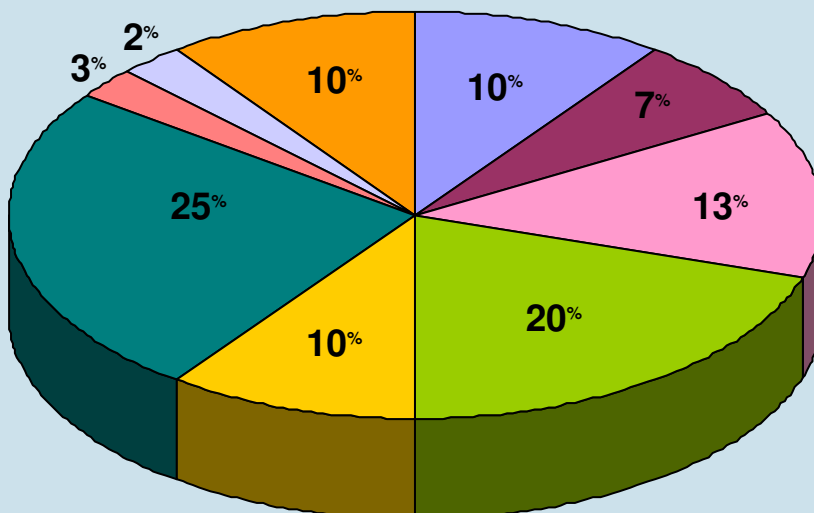
This pool has a moderate exposure in Cash and Fixed Interest investments, and a moderate exposure to growth assets such as Shares, Listed Property and Alternative Assets.

Risk profile is Medium

SECTOR RETURNS

INVESTMENT TYPE	GROSS RETURNS FOR THE SEPTEMBER QUARTER %
	Balanced
Cash and Short Term	2.8
Mortgages	2.8
NZ Fixed Interest	4.4
Overseas Fixed Interest	-4.5
Alternative Assets	1.7
ANZAC Equities	-8.6
Overseas Equities	-6.9
Property Equities	2.9
Forests and Land	2.6
TOTAL	-2.0

AVERAGE INVESTMENT ASSETS PERCENTAGES FOR THE SEPTEMBER 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

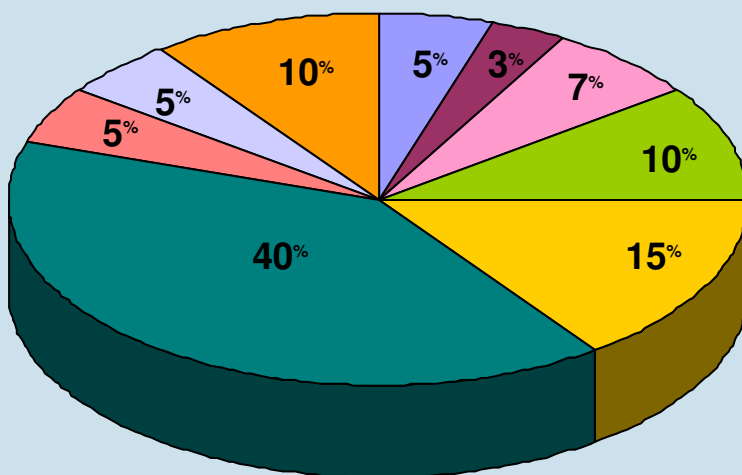
This pool invests mainly in growth assets such as Shares, Listed Property and Alternative Assets, with a small exposure to Fixed Interest and Cash.

Risk profile is Medium to High.

SECTOR RETURNS

INVESTMENT TYPE	GROSS RETURNS FOR THE SEPTEMBER QUARTER %
	Growth
Cash and Short Term	2.8
Mortgages	2.8
NZ Fixed Interest	4.4
Overseas Fixed Interest	-4.5
Alternative Assets	1.7
ANZAC Equities	-8.6
Overseas Equities	-6.9
Property Equities	2.9
Forests and Land	2.6
TOTAL	-3.5

AVERAGE INVESTMENT ASSETS PERCENTAGES FOR THE SEPTEMBER 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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