GLOBAL MARKETS

Global share markets produced a wide range of results over the September quarter. Developed markets were positive for the period, despite giving up some ground during September itself. The developed market index rose 2.4% in New Zealand dollar (NZD) terms, while emerging markets were almost 6% higher, led by Brazil’s and Russia’s recoveries in commodity prices.

At the top end, the tech-heavy US NASDAQ was up 10.4% in local currency terms – easily outperforming the broader US indices. Elsewhere, the German DAX had a strong quarter and the Japanese Nikkei was also well ahead of the global index. The weakest share market was the Italian, up around 1.25% in local currency terms or close to flat in NZD terms.

Oil fluctuated within the $40-50/barrel range over the quarter. By quarter end, it was back up towards the top of the range (close to where it started) after the odds of an OPEC-managed production slowdown increased.

Economic data in the US was mixed, with a weaker tone emerging by quarter end as second-quarter GDP printed well short of market expectations.

The September quarter was once again largely about the actions and words from the major central banks – or at least the market’s speculation about what they might say and do.

From the Bank of England came a package of measures including easier monetary policy, a return to quantitative easing (buying both government and corporate bonds) and a new Term Funding Scheme for banks. The level of easing exceeded even market expectations and the UK pound weakened – a positive for the international companies that make up a large portion of the FTSE100. Bond yields fell.

In Japan, Prime Minister Abe added further stimulus and restructuring to the economy, while the Bank of Japan kept its minimum interest rate at -0.1% and confirmed its bond buy-back programme. In addition, the Bank committed to keeping the 10-year government bond maturity at a yield of close to 0%, while also trying to positively steepen the longer end of the yield curve to assist bank profitability.

The US Federal Reserve continued to defer the decision to hike interest rates, with many analysts now expecting a hike in December – although the market overall remains sceptical.

There was no change to the very stimulatory monetary conditions in Europe as the European Central Bank continues to watch issues such as the outcome of Brexit, the upcoming Italian constitutional referendum and rising concerns around the solvency of Germany’s largest bank. Deutsche Bank potentially faces significant fines from the Department of Justice in the US for the mis-selling of mortgage investment products.

Fixed interest markets had a steady quarter, with September adding little to the gains made earlier in the year. US bond yields were marginally higher over the period, as were yields in the negative-yielding markets of Japan and Switzerland.

Corporate bonds performed substantially better than sovereign bonds as swap spreads and credit spreads tightened; much of this gain occurred early in the period as markets recovered from the immediate Brexit shock.

NEW ZEALAND MARKET

In New Zealand, economic data continued to show slightly above-trend growth. Confidence was also strong throughout the quarter and the whole milk powder price continued to recover.

The high NZD drove the Reserve Bank of New Zealand (RBNZ) to cut the Official Cash Rate to a record 2.0% in August and maintain an easing bias. However, in confirming the introduction of nationwide restrictions on loans to property investors, the RBNZ sought to limit any inflammatory effect the lower cash rate may have on the housing market.

New Zealand shares finished higher for the quarter, supported by continuing offshore interest. Ownership of the country’s top-50 listed companies by international investors rose to almost 50%.

Government bond yields were little changed, although shorter maturities benefited from the cut to the cash rate.

The NZD strengthened slightly against the USD and also rose on a trade-weighted basis.
Launched: October 2007

Fund description
The Cash Fund invests mainly in cash assets. The objective of the Cash Fund is to outperform the NZX NZ Bank Bill Index.

Fund report
- Cash investments performed predictably over the quarter. The August cut to the Official Cash Rate (OCR) from the Reserve Bank of New Zealand (from 2.25% to 2.00%) had little effect, having been well-signalled ahead of time.
- Term deposit rates held up well despite the lower OCR.
- Long-dated New Zealand bond yields were little changed over the quarter. However, 2-year maturities were 10 basis points lower as a result of the rate cut.

Fund performance to 30 September 2016

<table>
<thead>
<tr>
<th></th>
<th>3 months</th>
<th>1 year</th>
<th>3 years (p.a.)</th>
<th>5 years (p.a.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Fund</td>
<td>0.61%</td>
<td>2.51%</td>
<td>3.08%</td>
<td>3.04%</td>
</tr>
</tbody>
</table>

Performance is after Fund fees, and before tax and membership fees (if applicable).

Top five investments (as a % of net assets)
1. ASB Registered Certificate of Deposit 17/1/17 2.91%
2. ANZ Floating Rate Note 22/03/19 2.84%
3. Rabobank Registered Certificate of Deposit 01/12/16 2.70%
4. ASB Floating Rate Note 1/11/17 2.48%
5. Rabobank Floating Rate Note 4/9/18 2.47%

Launched: October 2007

Fund description
The Conservative Fund invests mainly in cash and fixed interest assets, with a smaller exposure to share and listed property assets.

Fund report
- The August cut to the Official Cash Rate (OCR) by the Reserve Bank of New Zealand (from 2.25% to 2.00%) had little effect on cash investments, having been well-signalled ahead of time. Term deposit rates held up well despite the lower OCR.
- Long-dated New Zealand bond yields were little changed. However, 2-year maturities were 10 basis points lower as a result of the rate cut. International fixed interest produced a small positive return.
- The New Zealand dollar (NZD) was again strong, propelled by strong migration, high interest rates (relative to other G10 countries), a solid growth rate and improving dairy prices.
- The international share index rose just over 3% for a satisfactory quarterly return.
- Australasian shares were among the better performers. The recovery in commodities (coal and iron ore in particular) offset a poor period for financials. In New Zealand, an ever-increasing ownership of the index by offshore investors fuelled the market to even more-expensive levels.

Fund performance to 30 September 2016

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<tbody>
<tr>
<td>Conservative Fund</td>
<td>1.29%</td>
<td>7.06%</td>
<td>7.22%</td>
<td>7.06%</td>
</tr>
</tbody>
</table>

Performance is after Fund fees, and before tax and membership fees (if applicable).

Top five investments (as a % of net assets)
1. Blackrock Wholesale Indexed Int’l Equity Fund 10.37%
2. NZ Govt Stock 6.0% 2021 2.20%
3. NZ Govt Stock 6.0% 2017 1.60%
4. NZ Govt Stock 5.6% 2019 1.54%
5. NZ Govt Stock 5.5% 2023 2.33%

Important information and the investment statement for the ANZ Default KiwiSaver Scheme are available under terms and conditions.
CONSERVATIVE BALANCED FUND

Launched: October 2007

Fund description
The Conservative Balanced Fund invests mainly in cash and fixed interest assets, with some exposure to share and listed property assets.

Fund report
- Long-dated New Zealand bond yields were little changed over the quarter. However, 2-year maturities were 10 basis points lower as the Reserve Bank cut the OCR in August.
- Corporate bonds outperformed sovereign bonds as credit margins to government bonds narrowed. The search for yield continued by investors.
- International fixed interest produced a small positive return over the quarter. Sovereign bonds hit record low yields across a number of countries, before the market shifted its view to preferring fiscal policy (spending and tax policy) over monetary policy (money supply) as a means of supporting consumer and business confidence.
- Australasian shares were among the better performers over the quarter. The recovery in commodities (coal and iron ore in particular) offset a poor period for financials. In New Zealand, an ever-increasing ownership of the index by offshore investors fuelled the market to even more expensive levels.
- The international share index rose just over 3% for a satisfactory quarterly return.
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- US share indices provided relatively modest returns, especially against a strong New Zealand dollar. However, the tech-heavy NASDAQ had a strong run.
- UK shares bounced back over the quarter from the surprise Brexit result.
- The New Zealand dollar rose against most major currencies. The trade-weighted index was up around 1.4% over the period.

Fund performance to 30 September 2016

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<tr>
<td>1.62%</td>
<td>7.14%</td>
<td>8.02%</td>
<td>8.39%</td>
</tr>
</tbody>
</table>

Performance is after Fund fees, and before tax and membership fees (if applicable).

Top five investments (as a % of net assets)
1. NZ Govt Stock 6.0% 2021 1.84%
2. NZ Govt Stock 6.0% 2017 1.33%
3. NZ Govt Stock 5.0% 2019 1.29%
4. NZ Govt Stock 5.5% 2023 1.11%
5. NZ Govt Stock 4.5% 2027 1.02%

BALANCED FUND

Launched: October 2007

Fund description
The Balanced Fund invests in cash and fixed interest assets, with similar amounts of share and listed property assets.

Fund report
- Long-dated New Zealand bond yields were little changed over the quarter. However, 2-year maturities were 10 basis points lower as the Reserve Bank cut the OCR in August.
- International fixed interest produced a small positive return over the quarter. Sovereign bonds hit record low yields across a number of countries, before the market shifted its view to preferring fiscal policy (spending and tax policy) over monetary policy (money supply) as a means of supporting consumer and business confidence.
- Australasian shares were among the better performers over the quarter. The recovery in commodities (coal and iron ore in particular) offset a poor period for financials. In New Zealand, an ever-increasing ownership of the index by offshore investors fuelled the market to even more expensive levels.
- The international share index rose just over 3% for a satisfactory quarterly return.
- US share indices provided relatively modest returns, especially against a strong New Zealand dollar. However, the tech-heavy NASDAQ had a strong run.
- UK shares bounced back over the quarter from the surprise Brexit result.
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<tr>
<td>2.15%</td>
<td>7.94%</td>
<td>8.98%</td>
<td>9.82%</td>
</tr>
</tbody>
</table>

Performance is after Fund fees, and before tax and membership fees (if applicable).

Top five investments (as a % of net assets)
1. NZ Govt Stock 6.0% 2021 1.45%
2. NZ Govt Stock 6.0% 2017 1.05%
3. NZ Govt Stock 5.0% 2019 1.01%
4. NZ Govt Stock 5.5% 2023 0.87%
5. NZ Govt Stock 4.5% 2027 0.80%

Important information and the investment statement for the ANZ Default KiwiSaver Scheme are available under terms and conditions.
Launched: October 2007

Fund description
The Balanced Growth Fund invests mainly in share and listed property assets, with some exposure to cash and fixed interest assets.

Fund report
- Australasian shares were among the better performers over the quarter. The recovery in commodities (coal and iron ore in particular) offset a poor period for financials. In New Zealand, an ever-increasing ownership of the index by offshore investors fuelled the market to even more expensive levels.
- The international share index rose just over 3% for a satisfactory quarterly return.
- US share indices provided relatively modest returns, especially against a strong New Zealand dollar. However, the tech-heavy NASDAQ had a strong run.
- UK shares bounced back over the quarter from the surprise Brexit result. The introduction of easier monetary policy by the Bank of England saw the FTSE100, which is full of international corporations, do very well as the pound sterling fell.
- The Japanese market was strong as the Ministry of Finance added stimulus to the economy and the Bank of Japan maintained very easy monetary conditions.
- Oil had a volatile ride over the period, starting the month around $50/barrel, falling close to $40/barrel before recovering again to almost $49/barrel.
- The New Zealand dollar rose against most major currencies. The trade-weighted index was up around 1.4% over the period.

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<tr>
<td>2.61%</td>
<td>8.58%</td>
<td>9.86%</td>
<td>11.23%</td>
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Performance is after Fund fees, and before tax and membership fees (if applicable).

Top five investments (as a % of net assets)
1. NZ Govt Stock 6.0% 2021 1.10%
2. Kiwi Income Property Trust 0.81%
3. NZ Govt Stock 6.0% 2017 0.80%
4. Precinct Property NZ Ltd 0.79%
5. NZ Govt Stock 5.0% 2019 0.77%

Launched: October 2007

Fund description
The Growth Fund invests mainly in share and listed property assets, with a smaller exposure to cash and fixed interest assets.

Fund report
- Australasian shares were among the better performers over the quarter. The recovery in commodities (coal and iron ore in particular) offset a poor period for financials. In New Zealand, an ever-increasing ownership of the index by offshore investors fuelled the market to even more expensive levels.
- The international share index rose just over 3% for a satisfactory quarterly return.
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<td>3.14%</td>
<td>9.35%</td>
<td>10.68%</td>
<td>12.61%</td>
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</table>

Performance is after Fund fees, and before tax and membership fees (if applicable).

Top five investments (as a % of net assets)
1. Kiwi Income Property Trust 0.96%
2. Precinct Property NZ Ltd 0.94%
3. Ryman Healthcare Ltd 0.90%
4. Westpac Banking Corporation 0.88%
5. Fletcher Building Ltd 0.88%