brook asset management limited

Brook Professional KiwiSaver Scheme - Balanced Fund

30 June 2011

KiwiSaver Scheme Update

KiwiSaver
Poua he Oranga

Government budget changes to KiwiSaver

The Budget announced by the Government in May 2011 resulted in a number of changes to KiwiSaver. These changes will be phased in, as follows:

- From 1st April 2012, the tax-free status of employer contributions to KiwiSaver will end. Employer Superannuation Contribution Tax will be levied on the employer contribution at the employee's marginal tax rate. This tax is payable by your employer.
- For the year ending 30th June 2012, the Member Tax Credit Amount will be halved from $1 to 50c for every $1 contributed by members, up to a maximum of $10 per week or $521.43 per year, which is half the current maximum.
- From 1st April 2013, both the minimum member contribution rate and the minimum employer contribution rate will rise from 2% to 3% (for both new and existing members). This will also be the default contribution rate. Members will still be able to select the higher rates of 4% or 8%.

New members will continue to receive the $1,000 Kick-Start payment.

The result expected from these changes is that there will be a slight increase in overall contributions to KiwiSaver account balances than previously.

Global Market Returns

Index	Region	Quarterly Return
S&P 500 Index	US	-0.39%
MSCI World Index	Global	-0.28%
NZX 50 Index Gross	NZ	0.25%
S&P/ASX 200	Australia	-4.02%
HK Hang Seng Index	Hong Kong	-4.80%
FTSE 100 Index	UK	0.63%
Nikkei 225	Japan	0.63%

Market Overview - June Quarter

This quarter saw most markets record negative returns with the key themes being weaker data from the US, increased uncertainty around European sovereign debt issues and the tightening of monetary conditions in China. Headlines towards the end of the quarter were dominated by Greece where there were mass protests in Athens as the Greek government voted in favour of tough economic reforms. These reforms aim to generate 28 billion Euros by 2015 through a combination of asset sales, spending cuts and taxation increases that unsurprisingly have proved unpopular with Greek citizens. In the US the size of the budget deficit is also a concern and in April Standard & Poors downgraded the outlook for US government debt from stable to negative for the first time since the attacks on Pearl Harbour 70 years ago. This occurred after the government announced plans to cut $4 trillion from the US deficit over the next 12 years.

The same theme has been evident locally and the NZ budget released in May was focussed on reducing debt with policies that restrain expenditure or divest assets. Of key interest to financial markets were the plans to partially list State Owned Enterprises and also a reduction in tax credits for the KiwiSaver scheme. In contrast to international markets the economic newsflow has been reasonably positive in NZ, particularly business confidence with the National Bank Business Confidence Index rising in both May and June to reach its highest level in over a year. This was despite two more significant aftershocks in Christchurch in June that caused further damage and have delayed reconstruction activity.

There was a considerable difference between stock market returns in New Zealand and Australia this quarter with the NZX 50 rising by 0.3% while the ASX 200 fell by 4%.

Market Outlook

In previous commentary we have highlighted the two-speed nature of the Australian economy with regards to exposure to the mining sector versus the rest of the economy. This theme has become more apparent this quarter with data releases painting a picture of a slower underlying Australian economy. We are particularly mindful of the earnings risk for domestic industrials which are facing margin pressure from increased costs of production combined with a more competitive environment, in part due to the strong Australian dollar. We are still positive on the longer term outlook for the Australian economy or market (which is largely linked to continued growth in Asia) but do think the portfolio performance over the shorter term will be driven by avoiding earnings downgrades. The outlook for New Zealand has been improving over the last of couple of months but the market faces a similar issue to Australia where earnings expectations are still too high. This is particularly true for companies with exposure to rebuilding activity in Christchurch with our view being that this will be delayed considerably following the strong aftershocks still being experienced.

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Brook Professional KiwiSaver Scheme Returns

	3 Mth	6 Mth	1 Yr	2 Yr (p.a.)	3 Yr (p.a.)	Inception (p.a)
Balanced Fund*	**-2.08%**	**0.08%**	**5.34%**	**4.42%**	**2.28%**	**3.69%**

*Fund returns are shown after expenses which include management fees.

Inception date: 1 October 2007

Portfolio Activity - Australasia

There have been relatively few changes to portfolio positions over the quarter. No new positions have been added and we elected to exit the position in **Crown**.

Other portfolio activity was to increase the weightings in **Transpacific Industries** and **Orica** while reducing positions in **BHP Billiton**, **CSL**, **AMP** and **Australia & New Zealand Banking Group**.

Top 10 Holdings - Australasia

Stock	Sector	Region
BHP Billiton Limited	Mining	Australia
Fletcher Building	Materials	New Zealand
Auckland Int'l Airport	Industrials	New Zealand
Sky Television	Media	New Zealand
Westpac Banking Corp	Banks	Australia
Contact Energy	Utilities	New Zealand
Mainfreight	Industrials	New Zealand
Orica	Mining	Australia
ANZ Banking Group	Banks	Australia
Telecom Corp	Telecom's	New Zealand

Portfolio Activity - International

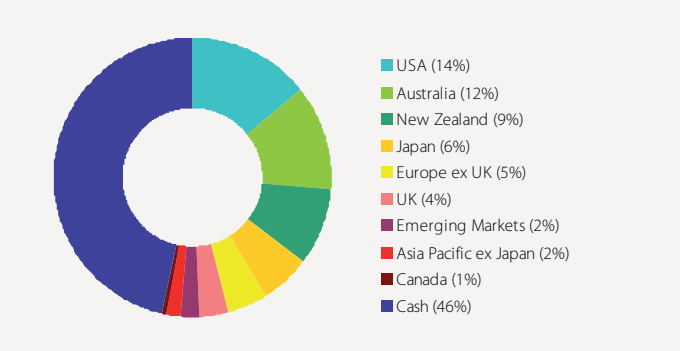
During the quarter the portfolio's weighting to international equities was slightly increased, taking advantage of the high level of the New Zealand dollar to move funds into overseas assets.

There were three new additions to the international portfolio with investments made in **China Shenhua**, **Colgate-Palmolive** and **OCBC** this quarter. The positions in **Hoya** and **Medtronic** were exited in favour of more attractive investment opportunities.

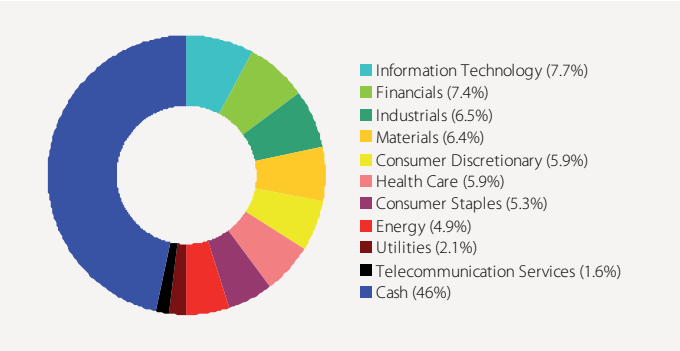
Top 10 Holdings - International

Stock	Sector	Region
Novo Nordisk B	Healthcare	Denmark
Fanuc Ltd	Industrials	Japan
BG Group	Energy	UK
Precision Castparts	Industrials	USA
Canon Inc	IT	Japan
Schlumberger Ltd	Energy	USA
CNOOC	Energy	Hong Kong/China
Fastenal Co	Industrials	USA
Abbott Labs	Healthcare	USA
Mitsubishi Estate	Financials	Japan

Country Allocation



Sector Allocation



N.B. The tables above may not add exactly to 100% due to rounding differences.

Unit Prices

To assist in following your KiwiSaver performance we update the KiwiSaver unit prices regularly on our website:
www.brook.co.nz

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