

## **Eriksen's Master Trust Survey Results To 30 September 1998**

The world is starting to experience a global depression similar to the Great Depression of 1929-33. In our view it is already worse than the stock market crash of October 1987. As a result the average annual return after tax and expenses of Master Trusts has fallen to 2.3%. This is still 0.5% above inflation but much less than the 6% pa shown last quarter.

The results reflect the large reduction in confidence and falls in the New Zealand stock market as well as most international markets over the last quarter.

The Asian crisis has in fact been spread around the world through "minor crises" in Europe caused by the near default of the Russian rouble and more recently in Brazil where the IMF bail out is vital to sustain the US banks who are severely at risk.

Mr Alan Greenspan and the US Federal Reserve still holds the key. To date he has reduced treasury interest rates by two 0.25% cuts within two weeks. This will not be enough to reflate the global economy. At some point Mr Greenspan will be caught between trying to boost the global economy and face higher domestic inflation in the US, or trying to control US inflation rates and allow the global recession to worsen.

Ultimately the Chinese threat of devaluation will dictate whether the Japanese economy, very groggy but still on its feet, gets a knock out punch.

We are predicting that the "Asian" crisis will continue for some years yet. In a sense it is not a temporary phenomenon but a global realignment of asset values focused on particular markets and economies. Liquidity is tightening around the world despite central banks reducing interest rates in an attempt to reflate their economies. Assets with strong cashflow and security of capital are to be preferred over potentially higher yielding riskier investments in our view.

The total funds in Master Trusts continued to grow but more slowly with the falls in return. Tower and AMP both grew strongly. However many other managers funds were static with little contribution income coming in.

On average balanced funds outperformed growth funds over the past year, but you would have been better leaving it in 90 day bills at the bank.

The range of results is wider than we would have expected. The tough trading conditions are separating out the players.

We are surprised that despite most funds offering one free switch a year, very little money has moved from the balanced or growth funds towards the capital stable end of the market. In these increasingly volatile global economic times when the preservation of capital should be upmost in peoples minds this reflects a lack of appreciation and understanding of the versatility of the Master Trust product and the need to be defensive.

Despite the continued difficulties with the disclosure regime, the number of employers contemplating turning their stand alone schemes into a master trust has slowed. To some extent this is a function of the deepening global recession and concerns about being able to pick a better fund manager than the current one.

The Honourable Bill Birch is still determined to pass the TOLIS legislation despite its complexity and luke warm opposition from the industry. It will be interesting to see whether he can muster the numbers. We fervently hope not.

Finally the Government has realised and acted on the fact that New Zealand Superannuation is unsustainable. Why weren't voters in the Compulsory Superannuation referendum told this last year?!!

We have revamped the survey this quarter by grouping results into three risk categories: Growth, Balanced and Conservative and ranking their four yearly performances. See our website for graphic details.

### **Contact us at:**

Auckland [auckland@eriksensglobal.com](mailto:auckland@eriksensglobal.com) Ph 64 9 486 3144  
Wellington [wellington@eriksensglobal.com](mailto:wellington@eriksensglobal.com) Ph 64 4 470 6144  
Sydney [sydney@eriksensglobal.com](mailto:sydney@eriksensglobal.com) Ph 61 2 9223 3747  
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(Funds are Ranked by 4 Year Performance)

Fund Name	Fund Size \$ million	Annual Returns (Net of Tax & Expenses)				No. of Employers
		4 Year	3 Year	2 Year	1 Year	
<b>Growth Funds</b>						
Tower Focus International Shares	4.4	9.5	10.3	12.1	4.0	65
Tower Pioneer	4.4	8.4	8.4	9.7	4.4	25
National Mutual Spread Managers	50.7	7.9	5.8	5.7	-1.8	
Prudential International Equities	1.2	7.7	7.0	6.4	1.8	
Tower Explorer	0.8	7.5	7.7	8.2	-0.6	20
Prudential Special Values	4.3	7.3	7.7	6.5	-0.9	
AMP High Equity	35.7	6.9	7.3	7.9	-1.8	446
Prudential Balanced Growth	17.3	6.6	6.3	5.5	-0.1	
Jacques Martin NZ Growth Fund	20.5	6.6	7.0	7.4		
WestpacTrust Dynamic	127.6	5.3	5.7	6.7	2.0	
Tower Focus NZ Shares	1.1	3.9	3.6	-0.1	-16.5	62
Prudential NZ Equity Management	0.1	0.9	0.4	-2.5	-18.0	
Jacques Martin NZ CIM Asset Growth	9.9					
Tower BT Managed Growth	0.1		7.4	6.6	-0.8	3
<b>All Growth Funds</b>	<b>278.1</b>	<b>6.4</b>	<b>6.2</b>	<b>6.8</b>	<b>0.4</b>	
<b>Balanced Funds</b>						
Armstrong Jones SIL Balanced	235.6	8.9	9.3	9.6	4.3	27
Tower Market Balanced	21.2	8.7	8.6	9.3	5.2	94
Tower Opportunity	3.1	8.0	7.9	9.2	5.4	25
AMP ANZ Funds Mgmt Balanced	45.2	7.0	7.0	6.5	0.9	416
AMP Balanced	170.4	7.0	7.0	7.4	1.4	680
AMP BT	12.6	7.0	7.6	6.7	0.1	249
Jacques Martin NZ Balanced	56.9	6.7	6.4	6.8	2.9	257
Royal Sun Alliance Managed Fund	85.7	6.4	6.4	7.0	1.0	36
National Mutual Balanced	19.8	5.9	5.5	5.3	-2.4	
National Mutual Managed	24.8	5.1	4.7	4.5	-4.3	
WestpacTrust Balanced	198.4	5.0	5.0	5.7	2.1	
AMP Indexed	7.7	4.7	4.4	3.8	-2.1	135
<b>All Balanced Funds</b>	<b>881.4</b>	<b>6.9</b>	<b>7.0</b>	<b>7.4</b>	<b>2.2</b>	
<b>Conservative Funds</b>						
Tower Focus Fixed Income	2.1	7.3	6.9	8.1	7.3	46
Prudential International Bond	0.3	6.8	8.2	8.4	9.4	
AMP Capital Stable	27.6	6.5	6.3	6.3	3.3	236
National Mutual Low Risk	20.0	6.4	6.3	5.2	-0.9	
Tower Endurance	0.6	6.2	5.9	6.2	3.8	16
Prudential NZ Fixed Interest	0.1	6.1	7.2	8.1	6.7	
Jacques Martin NZ Capital Stable	34.3	5.7	5.8	6.1	4.2	
WestpacTrust Accumulation	64.9	5.6	5.3	5.5	6.3	
Royal Sun Alliance Deposit Fund	46.1	5.6	5.4	5.2	5.2	23
Tower Focus Cash	1.5	5.6	5.6	5.3	5.1	35
AMP Capital Assured	24.5	4.7	5.2	5.6	5.8	197
National Mutual Capital Protected	27.9	4.5	4.2	4.3	4.5	
Prudential Conservative	0.5	4.4	4.7	4.2	4.1	
Jacques Martin NZ Cash Management	6.7		5.5	5.6	5.9	
<b>All Conservative Funds</b>	<b>257.0</b>	<b>5.6</b>	<b>5.5</b>	<b>5.5</b>	<b>4.7</b>	
<b>Total Funds</b>	<b>1,416.6</b>	<b>6.6</b>	<b>6.6</b>	<b>6.9</b>	<b>2.3</b>	
<b>Cash Benchmark (Net)</b>		6.0	5.9	5.7	5.8	
<b>CPI</b>		2.2	1.7	1.4	1.8	

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