

ERIKSEN & ASSOCIATES LTD

Actuaries & Investment Strategists

Eriksen's Master Trust Survey Results to 31 March 2014

Investment Returns

Over the 12 months to 31 March growth funds rose 8.4%, balanced funds gained 6.4% and conservative funds had positive returns of 3.5% after tax and fees – while inflation was 1.3%. These results are down on last quarter.

Economic Commentary

New Zealand

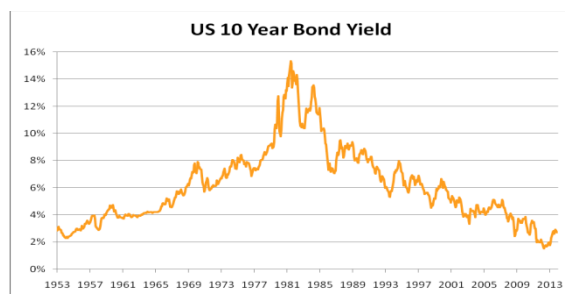
The New Zealand economy is performing better than most others within the OECD. The Reserve Bank has raised the OCR by 0.5% so far with at least another two 0.25% hikes to come later this year. This counter cyclical approach by the Reserve Bank is warranted. However we do not believe the economy is a rock star. In fact there may be rocky roads ahead in terms of reducing dairy prices, tight labour market and higher mortgage rates. We expect the next 0.25% increase in June to be followed by a pause.

USA

The short answer to the question of where interest rates are heading in the United States (and most Western countries) is simple from the Federal Reserve Chair Janet Yellen's position. Nowhere this year. Not until the economy is growing strongly possibly mid to late 2015?

The extreme stimulus is being slowly removed. At the FOMC meeting at the end of April, they voted to reduce the purchase of bonds by \$10b to \$45b. This was despite official figures showed the US economy grew at an annual rate of just 0.1% in the first quarter of 2014. Some components of the GDP weren't bad – consumer spending was up 3.0%. The reason given for such a disappointing overall number was "that the bad weather was partly to blame".

However, severe weather over the winter did not prevent the monthly average for new jobs from continuing a climb towards pre-economic crisis levels. The US added 192,000 new jobs in March (later revised to 203,000), in line with expectations, as the unemployment rate held steady at 6.7%. This was followed by April's data, just released, that showed 288,000 new jobs (highest since January 2012) and the unemployment rate dropping to 6.3% (the lowest since September 2008). However, the unemployment drop was mostly due to a reduction in the size of the labour force. With stubbornly high long term unemployment there is now emerging a sizeable number of people structurally unemployed.



The US 10 year bond yield tends to drive the yield in most English speaking countries although the spreads vary.

The current low interest rates are clearly not just a one-off related to the Global Financial Crisis (GFC). They have been trending down since the high inflation era of the 70s. Much of the decrease was due to the reducing expectations of future inflation (which were borne out in practice).

China

The Chinese Finance Minister Lou Jiwei explains that China was moving away from its once single-minded emphasis on growth targeting. The Government now stresses three macroeconomic goals – job creation, price stability, and GDP growth. Currently the emphasis is in that order. Last year was a case in point. In 2013 the economy added 13.1m workers (target was 10m) even though GDP expanded by "only" 7.7%.

So the lower expected GDP of around 7% going forward is unlikely to result in any major policy response although the restructuring of the shadow banking system will continue.

Australia

Australia has been transformed by the election. Its dollar has strengthened back to US\$92c, business confidence is up and China is still buying minerals. However the Government is predicting tax hikes in the budget. Raising the Aged Pension from 67 to 70 by 2035 should help but the risk is that China slows before the restructuring of the Australian economy gets far enough through.

Europe

European equities are performing better because the European Central Bank is facing deflationary pressures and increased political risks due to the Ukrainian situation which could escalate into a broader conflict. How that will impact interest rates and monetary policy remains to be seen.

KiwiSaver Default Providers

The Government has appointed nine institutions to be default KiwiSaver providers, an increase from the six originally selected. These are AMP, ANZ, ASB, BNZ, Grosvenor, KiwiBank, Mercer, Fisher Funds and Westpac. All of these default funds are conservative in investment style and have lower fees than the average KiwiSaver fund.

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Fund Name	Fund Size \$ million	Annualised Returns (Net of Tax & Expenses)					No of Employers
		1 Year	2 Year	3 Year	4 Year	5 Year	
Growth Funds							
AMP Aggressive	229.1	8.0	9.7	5.7	5.7	7.9	
AMP Growth (Previously Lifesteps Growth)	40.0	7.1	8.7	5.4	5.4	7.2	
AMP's SMT Multi-Mgr Growth	116.2	7.5	9.0	4.7	5.1	9.6	
Aon Growth	7.4	7.1	10.0	7.7	7.3	10.3	37
ASB SMT Growth	215.2	9.7	10.6	6.4	6.5	10.5	
Aventine's SuperLife Aim80	18.6	2.2	6.0	3.0	4.2	8.7	131
Fisher Funds LifeSaver Growth (previously Tower)	40.0	8.1	9.3	6.2	5.6	8.6	
Mercer Growth	62.4	9.9	9.3	5.8	5.7	9.2	
All Growth Funds	728.9	8.4	9.6	5.7	5.8	9.1	

The material presented here has been compiled from publicly available sources and information from the respective Master Trust providers. Where tax paid returns for PIE compliant funds have not been available, tax paid returns have been calculated using a 33% tax rate up to 31 March 2008, 30% to 30 September 2010 and 28% thereafter.

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Balanced Funds							
AMP ANZ Balanced Plus	218.2	8.9	10.5	8.0	7.5	9.8	
AMP ASB Balanced	51.3	6.9	8.0	5.4	5.5	8.3	
AMP Balanced	442.2	5.6	7.4	5.2	5.1	6.4	
AMP Fisher Balanced	129.3	7.4	8.2	5.6	5.4	7.4	
AMP Moderate Balanced (Previously Lifesteps Moderate)	111.8	4.8	6.4	4.6	4.6	5.7	
AMP Tyndall Balanced*	105.8	7.9	8.8	5.8	5.6	8.0	
AMP's SMT Multi-Mgr Balanced	240.7	5.5	7.1	4.6	4.9	8.4	
Aon Balanced	51.8	5.6	8.2	6.5	6.3	8.6	47
ASB SMT Balanced	497.6	7.3	8.6	5.7	5.9	9.0	
Aventine's SuperLife Aim60	45.4	2.0	5.5	3.6	4.4	7.9	131
Aventine's SuperLife Ethica	9.1	3.8	7.4	5.2	4.8	6.5	
Aventine's SuperLife SuperLife60 (previously Managed60)	169.9	4.9	8.2	5.7	6.0	8.6	131
Fisher Funds Lifesaver Balanced (previously Tower)	225.9	5.9	7.1	5.1	4.9	6.9	
Mercer Active Balanced	70.2	8.8	8.3	5.6	5.5	8.8	
All Balanced Funds	2,369.2	6.4	8.0	5.6	5.6	7.9	

*The AMP Tyndall Balanced Fund was managed by BT until 25 June 2008

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Conservative Funds							
AMP Capital Assured	100.0	3.7	2.8	2.8	2.9	2.9	
AMP Conservative	160.1	2.9	4.4	3.9	4.0	4.3	
AMP Moderate (Previously Lifesteps Moderate)	78.5	4.0	5.5	4.3	4.3	5.0	
AMP's SMT Multi-Mgr Conservative	112.7	3.0	4.5	4.1	4.4	5.9	
Aon Capital Stable	5.5	1.5	3.4	3.5	3.6	4.2	17
Aon Conservative	17.3	2.2	4.9	4.6	4.8	6.2	46
ASB SMT Conservative	121.7	4.9	6.4	4.9	5.0	7.2	
Aventine's SuperLife Aim30	32.6	2.1	4.8	4.1	4.5	6.5	131
Aventine's SuperLife SuperLife30 (previously Managed30)	21.1	1.9	5.4	4.3			131
Fisher Funds LifeSaver Conservative	20.5	3.7	5.0	4.4	4.3	5.7	
Mercer Conservative	35.7	4.8	4.8	4.1	4.1	6.5	
All Conservative Funds	705.7	3.5	4.7	4.0	4.0	5.1	

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Single Sector Aggressive							
AMP's SMT Australasian Listed Property	3.2	0.5	10.2	10.9	10.1	11.8	
AMP's SMT Australasian Shares - Value	3.0	17.5	19.5	12.7	10.2	13.7	
AMP's SMT Global Listed Property	6.4	5.4	11.4	8.8	9.8	20.1	
AMP's SMT Int'l Shares - Growth	4.1	30.2	16.3	10.2	8.5	11.5	
AMP's SMT Int'l Shares - Passive	4.4	15.9	14.5	8.1	7.6	11.1	
AMP's SMT Int'l Shares - Value	4.0	21.5	13.9	3.9	3.7	9.1	
AMP's SMT Multi-Mgr Australasian Shares	5.5	4.8	12.4	7.0	6.4	11.3	
ASB Australasian Shares	7.5	9.4	14.8	8.0	7.2	11.9	
ASB Global Property Shares	23.9	0.1	7.9	4.9	7.3	15.5	
ASB World Shares	13.0	14.7	11.6	6.3	6.5	11.0	
Aventine's SuperLife Australian Shares	59.2	-12.2	-3.3	-4.6	-2.2	5.3	
Aventine's SuperLife Emerging Markets	36.0	-6.7	-4.0	-9.7			
Aventine's SuperLife Gemino	8.9	37.9	32.8	5.5	10.0	10.1	
Aventine's SuperLife NZ Shares	100.6	20.8	27.1	16.0	15.2	18.7	
Aventine's SuperLife Oseas Shares Hedged	133.1	12.4	12.7	8.1	8.8	15.7	
Aventine's SuperLife Oseas Shares Unhedged	82.1	12.8	9.5	3.4	3.6	6.8	
Aventine's SuperLife Property	43.1	-1.6	9.0	8.6	8.7	12.8	
Aventine's SuperLife UK Growth	0.6	3.3					
Fisher LifeSaver Equity (previously Tower)	32.9	9.8	10.3	4.7	4.9	8.5	
Fisher LifeSaver Trans-Tasman Equity (previously Tower)	11.8	8.9	13.7	9.7	7.4	10.6	
Mercer Shares	17.2	16.9	14.6	7.6	7.1	10.8	
All Single Sector Aggressive	600.5	9.1	11.9	6.1	7.1	11.8	

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Single Sector Defensive							
AMP Cash	63.9	1.9	1.9	2.0	2.1	2.1	
AMP's SMT Cash	34.0	2.0	2.1	2.2	2.3	2.4	
AMP's SMT Global Bonds	2.6	2.0	3.1	4.5	4.5	5.2	
AMP's SMT NZ Fixed Interest	7.5	-0.5	2.2	3.3	3.7	4.2	
ASB Cash Fund	57.7	2.2	2.1	2.0	2.0	2.0	
ASB New Zealand Fixed Interest	34.6	0.2	2.2	3.3	3.8	3.9	
ASB World Fixed Interest	34.1	1.3	2.5	3.8	3.6	3.5	
Aventine's SuperLife Cash	115.3	2.7	2.7	2.7	2.8	2.8	
Aventine's SuperLife NZ Bonds	139.0	2.0	3.9	4.5	4.8	5.2	
Aventine's SuperLife Overseas Govt Bonds	51.5	-2.2	1.3	3.0	3.3	3.8	
Aventine's SuperLife Overseas Non Govt Bonds	69.7	1.2	3.5	4.7	4.3	5.2	
Aventine's SuperLife UK Cash	10.2	4.2	-0.8				
Aventine's SuperLife UK Income	0.3	-0.1					
Fisher LifeSaver NZ Fixed Income (previously Tower)	10.8	-0.7	1.9	3.2	3.6	3.6	
Fisher LifeSaver Preservation (previously Tower)	50.1	2.3	2.4	2.3	2.3	2.4	
Mercer Cash	25.6	2.0	1.8	1.9	2.2	2.1	
All Single Sector Defensive	707.0	1.6	2.6	3.1	3.2	3.5	

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Total Funds	5,111.2	5.9	7.5	5.1	5.2	7.5	
Cash Benchmark (Net)		1.9	1.8	1.9	1.9	1.9	
CPI		1.5	1.2	1.3	2.1	2.1	

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