

ERIKSEN & ASSOCIATES LTD

Actuaries & Investment Strategists

Eriksen's Master Trust Survey Results to 31 December 2012

Investment Returns

In the year to 31 December growth funds rose 12.7%, balanced funds gained 9.9% and conservative funds had positive returns of 5.7% after tax and fees. Inflation fell 0.2%, in contrast to the previous quarter. The calendar year to December 2012 saw inflation rise just 0.9%.

Over five years only conservative funds have managed to outperform both CPI and the cash rate.

Economic Commentary

Attempts to curtail the US budget deficit have only been moved on slightly by the "fiscal cliff" deal agreed late on January 1. This averted the package of automatic tax hikes and severe spending cuts which would have otherwise been introduced under the Budget Control Act of 2011.

The Act was originally passed in 2011 as a compromise which would provide an incentive to the parties to work together before it took effect, since allowing it to go ahead was seen as likely to push the U.S. economy into recession. The agreed changes will still reduce the U.S. productivity probably by about 1.5% of GDP or more.

The Eurozone may well face another recession as it struggles to resolve the fiscal issues of the peripheral countries. Predictions are for -1% GDP over the next year. It seems likely that most austerity programs will continue – however there's no certainty. Italy could be a case in point especially when the election campaigning starts in earnest.

Some senior European politicians (not including Mrs Merkel) have started to claim that the Euro zone crisis is almost over. However considerable structural reform will be required before the situation stabilises – even before considering how the Euro zone can move forward without some form of fiscal union.

Greece, for example, has made little progress in its fiscal reforms. The rampant tax avoidance by the rich has hardly been reduced. This has created widespread resentment amongst ordinary Greeks who feel that the economic pain is not being borne by those at the top.

This has led to a scandal over a list of 200 Greeks with Swiss bank accounts which was provided to the Greek government by the French in 2010. The then Finance Minister Mr Papaconstantinou (who incidentally signed Greece up for its first multi billion euro bailout) failed to take any action over this list and was initially unable to provide a copy to the next incoming government. When the list was produced it was found to have had the names of three of Mr Papaconstantinou's relatives removed, although he denied any wrongdoing and blamed his political opponents for the changes. Under strong public pressure to be seen to do something the Greek parliament is shortly to vote whether Mr Papaconstantinou should be charged with breach of duty and criminal tampering.

In the meantime life for most Greeks is continuing to get tougher; unemployment was up over 26% (now higher than Spain's). National output is expected to shrink by 4.5% in 2013 and the economy is on target to shrink by almost 25% between 2008 and 2013.

For these reasons we do not consider the Eurozone crisis improving in any shape or form.

In New Zealand the rebuild of Christchurch will have a positive effect on the economy, with more workers arriving daily and salary growth strong. In a world of quantitative easing bond yields are at all-time lows. With less indebtedness New Zealand as well as Australia are seen as safer havens. This is likely to leave the dollar at high levels, something that exporters will not be happy with. Dairy prices remain firm with 2013 tipped to be another good year.

In China it is not expected that the recent change in leadership will have a major impact. So it is likely to be incremental rather than radical policy moves. A good but not spectacular growth rate of around 7% seems most likely. The big question is when China starts reforms to move from an export led economy to domestic consumption. There have been no signs that this process has been really started yet.

The Australian treasurer has conceded the Federal Government cannot achieve a fiscal balance this financial year. The two tiered economy makes it harder especially when the resource sector is struggling with less demand and weaker prices. However the ASX reached 4700 at year end which was positive.

The biggest danger to the stock markets would be if investors believed GDP going forward will be lower than normal and discounted the value of future dividends. If accompanied by inflation all markets could disappoint. Let's hope that isn't the case.

Many fund managers are predicting a good year for equities – with the caveat that Europe and the US don't implode. We are not of that view and wonder if and when investor confidence will be dented by the state of the real global economy which seems perilous compared to the euphoria of the markets. There is thus the risk that Australia and New Zealand share markets suffer from profit taking.

We note that although inflation is low our domestic bond yields have started to rise. This may be a continuing trend.

KiwiSaver

Members and Employers are reminded that from 1 April 2013 the minimum rate of KiwiSaver contribution rises to 3% of gross taxable earnings.

Happy New Year

We hope all our friends and clients are well rested after the Christmas break and wish everyone a happy new year. 2013 is shaping up to be a very interesting year!

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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							
AXA SMT Multi-Mgr High Growth	146.4	15.8	4.3	4.6	8.2	-0.2	
Aon Growth	7.1	14.2	6.4	7.3	11.7	3.1	40
Aventine's SuperLife Aim80	15.4	13.4	4.5	5.2	7.9	0.5	128
AMP Lifesteps Aggressive	6.8	12.6	2.1	2.8	5.2	-2.4	
AMP High Equity	196.9	12.6	2.2	2.9	5.3	-2.4	
Tower LifeSaver Growth	29.4	12.4	4.5	5.6	8.4	0.8	124
ASB SMT Growth	174.1	11.3	4.1	4.8	7.0	-0.3	
AMP Lifesteps Growth	34.6	11.2	2.5	3.0	5.0	-1.2	
Mercer Growth	64.2	9.8	3.5	4.1	6.6	-0.6	
All Growth Funds	674.8	12.7	3.5	4.1	6.7	-0.9	

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							
Aventine's SuperLife Managed60	141.1	13.4	6.1	6.4	7.4	3.6	128
AMP OnePath Balanced Plus	184.4	12.6	5.9	5.6	7.5	1.9	
Aventine's SuperLife Aim60	39.1	11.8	5.1	5.5	7.6	2.4	128
Aon Balanced	43.2	11.6	5.9	6.1	9.5	4.0	55
Aventine's SuperLife Ethica	5.2	10.6	5.8	5.1	6.1		
AMP Tyndall Balanced (formerly BT balanced)	96.2	10.2	4.0	4.2	6.2	0.3	
AMP Tower Balanced	119.2	9.9	3.5	4.3	6.0	1.8	
AMP Balanced	344.4	9.7	3.4	3.6	4.9	0.6	
AMP Lifesteps Balanced	64.6	9.7	3.4	3.6	4.8	0.6	
ASB SMT Balanced	417.8	9.7	4.5	5.0	6.6	1.1	
AXA SMT Multi-Mgr Balanced	478.2	9.0	3.1	3.8	6.6	0.7	
Mercer Active Balanced	109.3	8.8	3.9	4.4	6.7	0.4	
AMP ASB Balanced	44.2	8.8	3.1	4.1	6.1	0.4	
Tower Lifesaver Balanced	197.6	8.6	4.0	4.7	6.5	2.4	124
AMP Lifesteps Moderate Balanced	94.3	8.4	3.2	3.4	4.4	1.1	
All Balanced Funds	2,378.8	9.9	4.1	4.5	6.3	1.3	

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

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Conservative Funds							
Aventine's SuperLife Managed30	4.4	10.6	5.8				128
Aventine's SuperLife Aim30	36.2	9.2	5.7	5.8	6.5	4.4	128
Aon Conservative	17.9	8.1	5.7	5.7	7.0	4.8	51
ASB SMT Conservative	107.5	7.8	4.6	4.9	5.8	2.5	
AMP Lifesteps Moderate	67.8	7.0	3.5	3.5	4.1	2.2	
Tower LifeSaver Conservative	18.2	6.1	4.4	4.6	5.7	3.4	124
AMP Capital Stable	132.3	5.7	3.9	3.8	3.9	3.4	
AMP Lifesteps Conservative	18.4	5.6	3.8	3.7	3.8	3.3	
Aon Capital Stable	5.6	5.5	4.6	4.8	5.0	4.9	20
Mercer Conservative	40.8	5.5	3.7	4.2	6.1	2.6	
AXA SMT Multi-Mgr Conservative	213.2	5.3	3.5	3.9	4.8	2.6	
AMP Capital Assured	103.6	1.9	2.3	2.5	2.6	2.9	
All Conservative Funds	765.8	5.7	3.8	3.9	4.6	2.9	

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Single Sector Aggressive							
Aventine's SuperLife NZ Shares	70.0	37.0	14.0	12.5	15.1	3.9	
Aventine's SuperLife Gemino	4.3	29.7	-9.8	-1.5	5.1	-8.6	
Tower LifeSaver Trans Tasman Equity	10.4	24.8	10.7	7.6	11.5	0.9	124
Aventine's SuperLife Property	37.6	20.7	14.1	11.3	11.7	0.1	
ASB Australasian Shares	11.9	18.8	5.4	4.6	9.8	-0.1	
ASB Global Property Shares	19.7	17.6	7.7	10.1	10.9	-2.4	
Aventine's SuperLife Oseas Shares Hedged	103.4	14.7	3.7	6.6	10.7	-1.0	
Mercer Shares	16.1	14.1	2.9	3.2	5.6	-4.3	
Tower LifeSaver Equity	25.4	11.3	1.1	3.8	7.4	-2.4	124
Aventine's SuperLife Australian Shares	50.3	10.6	0.8	1.6	9.6	-0.2	128
ASB World Shares	40.0	8.9	2.0	3.5	5.5	-5.2	
Aventine's SuperLife Oseas Shares Unhedged	65.4	8.7	0.2	1.0	1.2	-4.1	
All Single Sector Aggressive	454.5	17.2	5.3	6.0	9.1	-1.1	

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Single Sector Defensive							
Aventine's SuperLife Overseas Non Govt Bonds	56.7	8.4	6.6	6.3	6.3	7.4	124
Aventine's SuperLife NZ Bonds	132.5	5.7	6.6	6.3	5.6	6.2	
Aventine's SuperLife Overseas Govt Bonds	60.5	5.0	5.6	6.1	5.2	6.8	
ASB World Fixed Interest	13.5	3.9	4.7	4.6	3.9	4.9	
Tower LifeSaver NZ Fixed Income	15.0	3.9	5.7	5.3	4.4	5.6	
ASB New Zealand Fixed Interest	16.6	3.6	5.6	5.4	4.7	5.7	
Aventine's SuperLife Cash	113.5	2.8	2.8	2.9	2.9	3.5	124
Tower LifeSaver Preservation	53.0	2.4	2.3	2.4	2.5	3.1	
AMP Cash	70.8	1.9	1.9	2.0	2.1	2.8	
ASB Cash Fund	50.4	1.9	1.9	1.9	2.0	2.7	
Mercer Cash	43.6	1.7	2.0	2.2	2.1	2.7	
AXA SMT Cash	58.7	1.4	1.6	1.8	1.9	2.3	
All Single Sector Defensive	684.9	3.7	3.9	3.9	3.7	4.4	

Fund Name	Fund Size \$ million	Annualised Returns (Net of Tax & Expenses)					No of Employers
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Total Funds	4,958.8	9.4	4.0	4.4	6.0	1.4	
Cash Benchmark (Net)		2.0	1.9	2.0	2.0	2.6	
CPI		1.0	1.4	2.3	2.2	2.4	

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