

ERIKSEN & ASSOCIATES LTD

Actuaries & Investment Strategists

Eriksen's Master Trust Survey Results to 31 March 2013

Investment Returns

In the year to 31 March growth funds rose 10.8%, balanced funds gained 9.5% and conservative funds had positive returns of 5.6% after tax and fees. The calendar year to March 2013 saw inflation rise 0.9%, the same as the annual rate at the end of the calendar year.

Over five years only growth funds have underperformed both CPI and the cash rate.

Economic Commentary

We are concerned about the evidence of hedge fund operators, speculators and central banks being able to manipulate markets.

Currently central banks are still reducing interest rates as the ECB did last week. This led to capital gains on bonds. However when interest rates eventually rise investors will take capital losses which could be significant if the rate of increase is unable to be managed or controlled. In general central bankers ability to manage these big changes do not fill us with confidence.

Another demonstration was the rapid fall in the value of gold from 1580 to 1380 in less than a week and its subsequent rebound to 1470. Chinese and Indian investors bought as much as they could at the lower prices so much that supplies of physical gold dried up in Hong Kong. Because gold is a play on both the USD and the value of the metal the change in gold price has implications for other currencies.

Over the medium term we expect the NZD to strengthen against the USD because of the Federal Reserve's quantitative easing. However a perceived flight to quality to the USD or a sharp fall in the US stock market to which the strength of the NZ dollar is correlated could make this trend reverse temporarily. The US economy is recovering slowly but the recovery is patchy. The true rate of unemployment is around 20%. There is a housing market in that people are buying and selling but you can buy a five bedroom house in a good dormitory suburb in Atlanta for \$90,000 deposit and 30 year mortgage payments of \$500 per month (interest rate about 3.5%).

Another piece of the jigsaw is how this volatility will affect currencies. There are two forces working on the US dollar. First with quantitative easing the currency should continue to weaken and this is the general trend. However whenever investors get spooked the USD is still seen as a "strong" currency and so the wall of money moves into it. The US

stock markets are propping up its value too as investors keep buying shares at these "inflated" values.

Sequestration, the forced cutting back of government spending is having unexpected negative effects. A good example is the government having to lay off air traffic controllers because they have run out of money to pay them. This led to insufficient air traffic controllers to guide planes in and out of airports and severe disruptions to schedules and passengers with delays of several hours in many cases. Clearly this adversely affected productivity so the legislators hurriedly passed a law to enable air traffic controllers to remain working and the airline industry, amongst other, was kept operational. However the pipelines to fund cancer controlling drugs and education etc. still remain almost blocked.

Another critical currency pair is the NZD to the AUD. The Australian economy is struggling and the demand for soft commodities like milk, meat and timber which New Zealand produces is stronger than coal and iron ore at present. So again we expect the NZD to strengthen against the AUD in the medium term. However if China starts to expand rapidly, or if frustrated Japanese and other investors continue to buy Australian shares and bonds in their search for real yields then again the weight of money would favour Australia so it could go the other way.

There are two types of fund manager behaviour occurring. Some limit their views and actions to the markets and see quantitative easing as being beneficial to stocks so say "bring it on" and keep buying shares.

Others feel uneasy about the geopolitical risks, social unrest and increased volatility that moving so far into uncharted territory with quantitative easing brings. They are cautious about the almost euphoric perception of the current market conditions by investors. They say that the increased share prices driven by the wall of money are just pushing up prices which does not change the corporates growth or earnings capacity and makes shares "expensive". The increased volatility means when a market correction occurs it will be more severe. We agree with this more cautious view.

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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 High Equity	210.4	11.3	4.4	4.7	7.7	1.0	
AMP Lifesteps Aggressive	6.9	11.3	4.4	4.6	7.6	0.9	
AMP Lifesteps Growth	36.5	10.2	4.4	4.6	7.0	1.7	
AMP's SMT Multi-Mgr Growth	102.5	10.2	3.1	4.1	10.1	2.3	
Aon Growth	7.5	13.1	8.1	7.4	13.1	5.3	40
ASB SMT Growth	187.7	11.5	4.7	5.4	10.7	2.7	
Aventine's SuperLife Aim80	17.2	9.9	3.4	4.9	10.4	2.8	129
Mercer Growth	67.4	8.6	3.8	4.3	9.0	1.5	
Tower LifeSaver Growth	31.8	10.5	5.2	4.8	10.8	2.9	124
All Growth Funds	667.7	10.8	4.3	4.8	9.3	1.9	

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							
AMP ASB Balanced	47.1	9.0	4.5	4.9	8.5	2.9	
AMP Balanced	355.8	9.2	4.9	4.8	6.4	2.8	
AMP Lifesteps Balanced	68.9	9.1	4.9	4.8	6.4	2.8	
AMP Lifesteps Moderate Balanced	100.6	7.9	4.3	4.4	5.7	3.0	
AMP OnePath Balanced Plus	196.1	12.1	7.4	7.0	9.9	4.9	
AMP Tower Balanced	123.4	9.0	4.6	4.6	7.3	3.6	
AMP Tyndall Balanced (formerly BT balanced)	99.7	9.7	4.6	4.7	7.9	2.9	
AMP's SMT Multi-Mgr Balanced	219.8	8.0	3.6	4.2	8.6	3.1	
Aon Balanced	46.2	10.9	7.1	6.6	10.5	5.7	55
ASB SMT Balanced	444.3	9.9	4.9	5.4	9.4	3.3	
Aventine's SuperLife Aim60	42.0	9.2	4.4	5.2	9.5	4.0	129
Aventine's SuperLife Ethica	5.6	11.1	5.9	5.1	7.2	5.2	
Aventine's SuperLife Managed60	148.1	11.5	6.1	6.4	9.5	5.5	129
Mercer Active Balanced	114.9	7.8	4.1	4.5	8.8	2.2	
Tower Lifesaver Balanced	205.0	8.4	4.8	4.6	8.3	3.5	124
All Balanced Funds	2,217.6	9.5	5.0	5.1	8.3	3.5	

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

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Conservative Funds							
AMP Capital Assured	102.5	1.8	2.2	2.4	2.5	2.8	
AMP Capital Stable	136.7	5.7	4.3	4.2	4.5	4.2	
AMP Lifesteps Conservative	18.0	5.6	4.2	4.1	4.4	4.1	
AMP Lifesteps Moderate	70.8	6.8	4.3	4.2	5.1	3.5	
AMP's SMT Multi-Mgr Conservative	109.0	4.9	3.5	3.8	5.6	3.6	
Aon Capital Stable	5.5	5.3	4.6	4.3	5.0	4.8	20
Aon Conservative	18.8	7.7	5.9	5.7	7.6	5.4	51
ASB SMT Conservative	112.1	8.0	4.9	5.1	7.8	3.9	
Aventine's SuperLife Aim30	36.6	7.5	5.1	5.3	7.6	5.1	129
Aventine's SuperLife Managed30	4.9	9.1	5.5				129
Mercer Conservative	41.6	4.9	3.7	3.9	6.9	3.3	
Tower LifeSaver Conservative	18.7	6.3	4.8	4.5	6.7	4.0	124
All Conservative Funds	675.0	5.6	4.0	4.1	5.4	3.7	

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Single Sector Aggressive							
AMP's SMT Australasian Listed Property	3.2	20.8	16.4	13.5	14.8	4.7	
AMP's SMT Australasian Shares - Value	2.8	21.1	10.0	7.5	12.5	4.9	
AMP's SMT Global Listed Property	6.2	14.6	7.3	8.0	21.4	-0.8	
AMP's SMT Int'l Shares - Growth	3.0	4.6	2.0	2.8	8.5	-2.4	
AMP's SMT Int'l Shares - Passive	3.6	13.4	4.7	5.2	10.6	2.0	
AMP's SMT Int'l Shares - Value	2.7	7.5	-3.3	-1.1	7.2	-4.6	
AMP's SMT Multi-Mgr Australasian Shares	6.1	19.6	7.3	6.4	12.5	4.6	
ASB Australasian Shares	13.0	20.5	7.3	6.4	12.6	4.4	
ASB Global Property Shares	21.1	16.3	7.4	9.9	19.7	1.6	
ASB World Shares	42.7	8.6	2.4	3.9	10.1	-1.7	
Aventine's SuperLife Australian Shares	54.6	6.6	-0.6	1.3	10.3	1.4	
Aventine's SuperLife Emerging Markets	30.6	-1.1	-11.1				
Aventine's SuperLife Gemino	4.8	27.9	-7.8	2.1	4.1	-5.2	
Aventine's SuperLife NZ Shares	75.0	33.8	13.7	13.4	18.2	8.6	
Aventine's SuperLife Oseas Shares Hedged	113.2	12.9	6.0	7.6	16.5	3.0	
Aventine's SuperLife Oseas Shares Unhedged	68.9	6.2	-1.0	0.7	5.3	-1.0	
Aventine's SuperLife Property	40.7	20.8	14.1	12.4	16.7	3.0	
Mercer Shares	17.1	12.3	3.2	4.0	9.3	-0.7	
Tower LifeSaver Equity	27.5	10.8	2.2	3.9	11.1	1.1	124
Tower LifeSaver Trans-Tasman Equity	10.6	18.8	10.2	6.9	13.4	4.2	124
All Single Sector Aggressive	547.4	14.3	4.7	6.2	12.5	2.2	

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Single Sector Defensive							
AMP Cash	68.1	1.8	1.9	2.0	2.0	2.6	
AMP's SMT Cash	36.0	1.7	1.6	1.8	1.9	2.2	
AMP's SMT Global Bonds	3.7	2.4	3.6	3.5	4.1	3.8	
AMP's SMT NZ Fixed Interest	10.2	3.0	3.3	3.4	3.8	4.6	
ASB Cash Fund	50.4	1.9	1.9	1.9	1.9	2.5	
ASB New Zealand Fixed Interest	16.5	4.3	4.9	5.0	4.9	5.6	
ASB World Fixed Interest	13.6	3.8	5.0	4.3	4.0	4.3	
Aventine's SuperLife Cash	108.8	2.7	2.8	2.8	2.8	3.4	
Aventine's SuperLife NZ Bonds	133.7	5.8	5.8	5.8	6.1	6.3	
Aventine's SuperLife Overseas Govt Bonds	61.0	5.0	5.7	5.2	5.4	6.2	
Aventine's SuperLife Overseas Non Govt Bonds	58.6	5.8	6.5	5.3	6.2	6.9	
Aventine's SuperLife UK Cash	14.7	-5.6					
Mercer Cash	39.1	1.5	1.9	2.2	2.1	2.6	
Tower LifeSaver NZ Fixed Income	14.2	4.6	5.2	5.1	4.8	5.6	124
Tower LifeSaver Preservation	51.9	2.6	2.3	2.3	2.5	3.0	124
All Single Sector Defensive	680.6	3.4	3.7	3.7	3.8	4.3	

Fund Name	Fund Size \$ million	Annualised Returns (Net of Tax & Expenses)					No of Employers
		1 Year	2 Year	3 Year	4 Year	5 Year	
Total Funds	4,788.3	8.8	4.5	4.8	7.9	3.3	
Cash Benchmark (Net)		1.8	1.9	2.0	1.9	2.4	
CPI		0.9	1.2	2.3	2.2	2.4	

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