

# ERIKSEN & ASSOCIATES LTD

Actuaries & Investment Strategists

## Eriksen's Master Trust Survey Results to 30 June 2013

### Investment Returns

In the year to 30 June growth funds rose 15.3%, balanced funds gained 11.5% and conservative funds had positive returns of 5.7% after tax and fees. The calendar year to June 2013 saw inflation rise just 0.7%. Excellent real returns which unfortunately may not be sustained in the next twelve months.

### Economic Commentary

The aggressive quantitative easing to restore confidence and liquidity made sense in the first few years of the 2007 GFC. Deflation was a major concern so the inflationary effects seemed lesser risks. Financial stability was threatened by incipient panic, recession seemed more likely than growth and politicians welcomed every intervention that might calm markets and restore growth.

The question is how long it will be before the various major economies would be strong enough for the economic stimulus to be withdrawn. That time now seems to be approaching. Widespread fears over deflation have receded, with some now looking at the prospect of inflation, and expectations of continuing stagnation have given way to the beginnings of slow recovery.

Meanwhile, the prospect of market instability caused by fears of central bank inaction has been replaced by worries over what form the next actions will take. Many politicians continue to press for any measures to pump up the economy so that they can remain in power.

Investors know this of course. They have been intensely studying each pronouncement from the major reserve banks for indications as to when their stimulus might start to reverse. However they are eager to make the best gains as long as the present liquidity continues. Yet they do not wish to be caught out when it ends. As a result there is considerable uncertainty in the markets. Orderly central bank policy exits will be difficult. Recent comments by the US Federal Reserve chairman and the Australian Reserve Bank governor for example have had their part in reducing the values of the Australian and New Zealand currencies, while also creating stock market jitters.

However the most significant impact has been on US 10 year Treasury bond yields which have risen from 1.6% to 2.5% this year. A big chunk of the rise followed Mr Bernanke's comments on reducing or tapering the \$85 billion per month purchases of US treasuries in late June. The New Zealand 10 year bond rate went up in a synchronised move from 3.2% to 4.2%! The fact that the markets behaved as one is very interesting. Offshore investors control our market. They also control a large portion of the issuance of US treasuries not bought back by the Federal Reserve.

The key question is whether the markets (i.e. investors collectively) will effectively ignore the Central Bankers lead on where they think interest rates should be. In that case

interest rates could continue to rise quickly. We think the market has taken the pricing role away from Central Banks for the first times since the GFC began.

Looking at the likely scenarios going on from here it seems that policy makers will underestimate the extent of market reaction to the modest and restrained changes they make now.

In China softer growth numbers and short term liquidity problems are adversely affecting the Australian stock market amongst others in the last month. We believe China is succeeding in the transition from one ruling regime to the next and in managing the slowdown fairly well despite having to pump a further USD \$2.8 billion into the short term money market recently.

We expect continued market volatility and further downward pressure on equity markets as bond yields rise.

### KiwiSaver Funds: Bankruptcies and Trans-Tasman Portability

The ability to release KiwiSaver funds to pay creditors of bankrupts has been raised recently. Most trustees believe that the wording of the KiwiSaver Act 2006 does not allow them to release the funds of bankrupts to pay creditors when the application is made under the scheme's financial hardship provisions.

The number of bankrupts with KiwiSaver accounts is growing. The Government's Insolvency and Trustee Service (ITS) considers the funds held in these accounts as assets that should be available to meet obligations to creditors under the Insolvency Act. The Official Assignee is currently seeking clarity through the High Court in respect of its rights to release these funds before an individual turns 65 if they declare themselves bankrupt.

There is no specific wording in the KiwiSaver Act 2006 relating to the access of an individual's KiwiSaver account in the case of bankruptcy. We await the outcome of the High Court case to see if the KiwiSaver Act takes precedence over the Insolvency Act or vice versa.

The Trans-Tasman portability of KiwiSaver funds to Australian Registered Superannuation Schemes and vice versa is now legally possible. Many New Zealand providers are able to cater for Australian funds but the process is slower from Australian providers. It will be an interesting developing market.

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## Eriksen's Master Trust Survey Results to 30 June 2013

Fund Name	Fund Size \$ million	Annualised Returns (Net of Tax & Expenses)					No of Employers
		1 Year	2 Year	3 Year	4 Year	5 Year	
<b>Growth Funds</b>							
AMP High Equity	201.6	15.6	5.7	6.7	6.2	0.1	
AMP Lifesteps Aggressive	6.3	15.6	5.6	6.6	6.1	0.1	
AMP Lifesteps Growth	35.8	13.5	5.3	6.2	5.8	0.9	
AMP's SMT Multi-Mgr Growth	101.8	15.5	5.3	7.3	7.6	2.5	
Aon Growth	7.6	14.6	7.9	8.6	10.8	5.1	41
ASB SMT Growth	193.2	17.0	7.5	9.3	9.1	3.5	
Aventine's SuperLife Aim80	16.7	12.1	4.4	7.4	7.9	2.7	129
Mercer Growth	68.4	12.3	5.2	6.8	7.0	1.9	
Tower LifeSaver Growth	32.5	12.5	5.7	6.6	7.9	3.1	124
<b>All Growth Funds</b>	<b>663.9</b>	<b>15.3</b>	<b>6.1</b>	<b>7.6</b>	<b>7.5</b>	<b>2.0</b>	

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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		1 Year	2 Year	3 Year	4 Year	5 Year	
<b>Balanced Funds</b>							
AMP ASB Balanced	47.1	11.8	6.0	6.5	7.4	3.0	
AMP Balanced	344.6	10.8	5.2	5.9	5.5	2.1	
AMP Lifesteps Balanced	67.0	10.8	5.2	5.8	5.4	2.1	
AMP Lifesteps Moderate Balanced	99.8	9.2	4.5	5.2	4.9	2.3	
AMP OnePath Balanced Plus	195.3	15.3	7.8	8.4	8.9	4.7	
AMP Tower Balanced	118.9	9.8	4.9	4.9	6.3	3.1	
AMP Tyndall Balanced* (formerly BT balanced)	98.7	11.7	5.7	6.0	7.0	2.8	
AMP's SMT Multi-Mgr Balanced	219.0	11.6	5.2	6.5	7.1	3.6	
Aon Balanced	45.6	11.4	6.7	7.2	8.7	5.4	55
ASB SMT Balanced	453.5	13.1	6.7	8.0	8.1	3.9	
Aventine's SuperLife Aim60	42.5	9.8	5.0	7.0	7.4	3.7	129
Aventine's SuperLife Ethica	5.9	10.8	6.4	6.2	6.4	5.1	
Aventine's SuperLife Managed60	148.9	11.8	6.2	8.0	7.9	5.0	129
Mercer Active Balanced	64.5	10.5	5.1	6.3	6.9	2.5	
Tower Lifesaver Balanced	204.1	8.4	4.8	5.3	6.2	3.4	124
<b>All Balanced Funds</b>	<b>2,155.4</b>	<b>11.5</b>	<b>5.8</b>	<b>6.7</b>	<b>7.0</b>	<b>3.4</b>	

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

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<b>Conservative Funds</b>							
AMP Capital Assured	102.8	2.0	2.1	2.4	2.5	2.7	
AMP Capital Stable	134.3	5.2	3.7	4.2	4.2	3.6	
AMP Lifesteps Conservative	18.3	5.1	3.6	4.1	4.1	3.5	
AMP Lifesteps Moderate	71.9	7.1	4.1	4.7	4.5	2.8	
AMP's SMT Multi-Mgr Conservative	108.5	6.1	4.5	5.1	5.7	4.4	
Aon Capital Stable	5.6	2.5	3.5	3.5	4.4	4.5	20
Aon Conservative	19.0	5.5	4.8	5.4	6.3	5.1	51
ASB SMT Conservative	112.3	8.7	5.4	6.3	6.7	4.1	
Aventine's SuperLife Aim30	35.2	6.5	5.0	6.0	6.3	4.8	129
Aventine's SuperLife Managed30	6.1	6.9	4.8				129
Mercer Conservative	40.8	5.4	3.8	4.4	5.5	3.3	
Tower LifeSaver Conservative	19.6	4.8	4.1	4.2	5.2	3.7	124
<b>All Conservative Funds</b>	<b>674.5</b>	<b>5.7</b>	<b>4.0</b>	<b>4.6</b>	<b>4.9</b>	<b>3.6</b>	

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<b>Single Sector Aggressive</b>							
AMP's SMT Australasian Listed Property	3.3	17.6	13.8	15.4	14.1	5.9	
AMP's SMT Australasian Shares - Value	2.8	28.9	12.5	12.2	10.8	7.0	
AMP's SMT Global Listed Property	6.1	16.1	10.0	13.7	18.0	2.8	
AMP's SMT Int'l Shares - Growth	3.1	17.0	6.8	7.7	7.0	-2.6	
AMP's SMT Int'l Shares - Passive	3.6	23.3	9.5	10.0	8.6	2.0	
AMP's SMT Int'l Shares - Value	2.9	33.3	6.2	6.7	5.8	-2.8	
AMP's SMT Multi-Mgr Australasian Shares	5.5	21.0	7.8	9.9	9.7	6.1	
ASB Australasian Shares	12.5	22.8	7.6	10.0	9.4	4.7	
ASB Global Property Shares	21.2	13.5	8.8	12.1	15.8	3.2	
ASB World Shares	45.5	21.4	8.4	10.5	9.3		
Aventine's SuperLife Australian Shares	50.1	6.0	-0.9	3.6	4.2	-1.4	
Aventine's SuperLife Emerging Markets	31.2	2.9	-6.5				
Aventine's SuperLife Gemino	4.2	26.5	-5.4	-0.2	-1.5	-9.1	
Aventine's SuperLife NZ Shares	73.4	29.9	12.4	15.7	15.3	10.2	
Aventine's SuperLife Oseas Shares Hedged	113.3	21.3	8.2	13.1	12.4	3.0	
Aventine's SuperLife Oseas Shares Unhedged	76.0	20.8	8.3	7.3	6.2	0.5	
Aventine's SuperLife Property	41.6	14.6	11.8	13.6	14.2	3.6	
Mercer Shares	17.4	21.6	7.1	9.1	7.6	0.3	
Tower LifeSaver Equity	27.9	17.1	4.2	6.6	7.7	1.3	124
Tower LifeSaver Trans-Tasman Equity	10.4	21.0	9.6	10.2	9.8	5.3	124
<b>All Single Sector Aggressive</b>	<b>551.9</b>	<b>19.0</b>	<b>7.1</b>	<b>10.0</b>	<b>9.8</b>	<b>2.6</b>	

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<b>Single Sector Defensive</b>							
AMP Cash	67.0	1.9	1.8	2.0	2.0	2.4	
AMP's SMT Cash	35.5	2.3	2.2	2.4	2.5	2.7	
AMP's SMT Global Bonds	3.7	3.6	5.0	4.5	5.6	5.5	
AMP's SMT NZ Fixed Interest	9.7	1.2	3.9	4.0	4.6	5.6	
ASB Cash Fund	50.1	2.1	1.9	2.0	1.9	2.3	
ASB New Zealand Fixed Interest	16.3	1.4	3.7	4.0	4.6	5.0	
ASB World Fixed Interest	13.3	0.7	3.4	3.0	3.6	4.0	
Aventine's SuperLife Cash	109.8	2.7	2.7	2.8	2.8	3.2	
Aventine's SuperLife NZ Bonds	134.4	3.6	4.8	5.1	5.8	5.8	
Aventine's SuperLife Overseas Govt Bonds	59.3	0.5	4.6	4.3	4.8	5.6	
Aventine's SuperLife Overseas Non Govt Bonds	58.1	2.1	5.1	4.8	5.2	6.6	
Aventine's SuperLife UK Cash	11.7	0.8					
Mercer Cash	33.7	1.7	1.8	2.1	2.1	2.4	
Tower LifeSaver NZ Fixed Income	12.6	0.8	3.4	3.8	4.3	4.9	124
Tower LifeSaver Preservation	51.5	2.6	2.3	2.3	2.5	2.8	124
<b>All Single Sector Defensive</b>	<b>666.6</b>	<b>2.3</b>	<b>3.3</b>	<b>3.4</b>	<b>3.6</b>	<b>4.1</b>	

Fund Name	Fund Size \$ million	Annualised Returns (Net of Tax & Expenses)					No of Employers
		1 Year	2 Year	3 Year	4 Year	5 Year	
<b>Total Funds</b>	<b>4,712.3</b>	<b>10.8</b>	<b>5.4</b>	<b>6.4</b>	<b>6.6</b>	<b>3.2</b>	
Cash Benchmark (Net)		1.8	1.9	1.9	1.9	2.2	
CPI		0.7	0.8	2.3	2.1	2.1	

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