

# ERIKSEN & ASSOCIATES LTD

Actuaries & Investment Strategists

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

### Investment Returns

Over the 12 months to 30 September growth funds rose 13.3%, balanced funds gained 9.8% and conservative funds had positive returns of 4.7% after tax and fees – while inflation was 0.9. While marginally down on last quarter these are still good returns.

### Economic Commentary

There has been a generally muted response to the breakdown in the US budget negotiations. Now that a deal has been struck the markets have risen across the board. No one really believed that the default would actually happen: even if it did the government would have been able to shuffle payments and reschedule them. However it's only been resolved until just after the holidays where they will presumably have to sit down and go through this whole process again.

In Japan Prime Minister Abe has raised VAT by 3% to 8% with effect from early 2014. A 5 trillion Yen stimulus plan is also being introduced to balance the impact. An issue for Mr Abe has been Japan's inability to revive the nuclear power industry, leaving it currently reliant on much more expensive oil and liquefied natural gas for electricity. With the US now having access to new sources of cheaper gas, affordable energy is an essential part of Japan's efforts to restore growth. High energy costs threaten the benefits of the 20% or so fall in the yen against the dollar achieved by Mr Abe but again structural reforms appear lacking.

While some recent European data has looked better on the surface, the cracks remain. Share prices have recovered remarkably with indices in Portugal, France and Spain up sharply. The Greek main index is now more than 64% up on June 2012 (but still 85% below its 2008 high).

On the other hand, Greece is still negotiating for further assistance, France continues to act as though its problems are all but over and Italy and Portugal have in common debt around 130% of GDP and very unstable coalition governments (with Mr Berlusconi only just being persuaded not to bring the Italian one down).

Back in New Zealand the newly introduced loan to value ration limit (LVR) on residential mortgage lending has met with a mixed response as the banking and real estate industries debate the implications.

One issue is that it is a rather blunt instrument which treats all parts of the country equally, while principally trying to control price rises in Auckland and Christchurch. Another is that the public now regards it as a social equity issue that prospective buyers be able to borrow perhaps 90%-95% of the value of a half million dollar house at historically low interest rates.

As a result the Reserve Bank Governor has intimated that he will not be solely relying on the LVR limits to limit housing inflation. OCR increases of at least 2% will be required over the next two years.

The stock market run seems to be slowing. It will be interesting to see how the Meridian Energy float is received. Meanwhile our steepish Government stock yield curve shows little sign of flattening.

Like New Zealand the Australian stock market (and currency) is benefiting from offshore investors buying. The new Abbott government is enjoying a honeymoon period but the structural issues in Australia remain. Namely reliance on mineral exports to China and the two speed economy. However the increased confidence of consumers may preclude the RBA from reducing interest rates further.

The economic problems underline the slowdown in world trade and make the trade talks in Bali more important, especially for some of the major emerging market economies such as the BRICS (Brazil, Russia, India, China and South Africa) and Indonesia.

The recent withdrawal of overseas investors from the emerging markets caused both their stock markets and currencies to fall. It all reinforces the fact that investors operate in one global market. Hence the risk of adverse consequences should the U.S. or Japanese political and economic experiments blow up!

### KiwiSaver to Stay with Status Quo

The Finance Minister has announced that the default KiwiSaver investment mandate will remain the same by continuing to manage these funds conservatively. There were calls to change the default to a "life steps" approach. This approach places funds into more aggressive investments such as shares and property in the early stages of a member's life, and progressively shifting to greater proportions of cash and bonds as the member ages. The conservative option tends to have between 15% and 25% of assets in "growth" assets, that is, shares and property. There are currently six default KiwiSaver providers but this may increase as the Government will retender early next year and is looking to appoint no more than ten.

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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	
<b>Growth Funds</b>							
ASB SMT Growth	199.6	14.6	13.4	7.5	7.0	4.9	37
AMP Lifesteps Aggressive	6.6	14.2	13.7	6.9	6.1	2.5	
AMP High Equity	215.0	14.1	13.7	7.0	6.1	2.5	
Aon Growth	6.6	13.4	12.4	8.3	8.1	6.1	
AMP's SMT Multi-Mgr Growth	108.3	13.0	12.1	6.3	5.9	5.0	
AMP Lifesteps Growth	36.8	12.3	12.0	6.4	5.8	2.9	
Mercer Growth	70.6	11.2	10.0	6.0	5.5	4.2	
Tower LifeSaver Growth	35.6	10.2	11.8	6.7	6.4	5.1	
Aventine's SuperLife Aim80	18.1	8.6	10.3	5.6	5.9	4.3	
<b>All Growth Funds</b>	<b>697.2</b>	<b>13.3</b>	<b>12.7</b>	<b>6.9</b>	<b>6.3</b>	<b>4.0</b>	

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		1 Year	2 Year	3 Year	4 Year	5 Year	
<b>Balanced Funds</b>							
AMP OnePath Balanced Plus	207.4	13.4	12.7	8.7	8.2	5.8	51
ASB SMT Balanced	468.3	11.0	10.7	6.5	6.3	4.8	
Aon Balanced	44.2	10.4	10.0	6.9	6.8	6.1	
AMP Tyndall Balanced	101.2	10.3	10.2	6.0	5.9	4.0	
AMP ASB Balanced	49.8	10.3	10.4	6.0	6.1	4.0	
AMP Balanced	356.5	9.6	9.9	5.8	5.4	3.5	
AMP Lifesteps Balanced	70.2	9.6	9.9	5.8	5.4	3.4	
AMP's SMT Multi-Mgr Balanced	228.5	9.4	9.5	5.6	5.7	5.3	
Mercer Active Balanced	66.4	9.4	8.7	5.5	5.4	4.3	
Aventine's SuperLife SuperLife60 (previously Managed60)	155.7	9.1	10.9	6.8	6.8	5.9	
Aventine's SuperLife Ethica	6.8	8.3	9.5	6.1	5.3	5.4	
AMP Lifesteps Moderate Balanced	105.3	8.0	8.4	5.1	4.8	3.3	129
AMP Tower Balanced	123.1	7.9	9.2	5.2	5.6	4.5	
Tower Lifesaver Balanced	214.6	7.1	8.7	5.5	5.6	4.8	
Aventine's SuperLife Aim60	44.5	6.8	8.9	5.3	5.7	4.9	
<b>All Balanced Funds</b>	<b>2,242.6</b>	<b>9.8</b>	<b>10.1</b>	<b>6.2</b>	<b>6.0</b>	<b>4.6</b>	

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

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<b>Conservative Funds</b>							
ASB SMT Conservative	115.7	7.2	7.7	5.2	5.4	4.5	
AMP Lifesteps Moderate	73.4	6.3	6.9	4.6	4.5	3.5	
AMP's SMT Multi-Mgr Conservative	108.9	4.7	5.7	4.4	4.8	4.9	
Mercer Conservative	40.5	4.6	5.0	3.7	4.3	4.2	
Tower LifeSaver Conservative	19.3	4.3	5.5	4.2	4.6	4.3	
Aon Conservative	16.9	4.3	5.7	4.7	5.2	5.1	46
AMP Capital Stable	135.8	4.3	5.2	4.0	4.1	3.8	
Aventine's SuperLife SuperLife30 (previously Managed30)	21.2	4.2	6.5	4.5			129
AMP Lifesteps Conservative	21.3	4.2	5.1	3.9	4.0	3.7	
Aventine's SuperLife Aim30	34.9	4.2	6.4	4.7	5.3	5.1	129
AMP Capital Assured	102.1	2.4	2.1	2.4	2.5	2.6	
Aon Capital Stable	5.6	1.2	3.2	3.0	3.8	4.2	19
<b>All Conservative Funds</b>	<b>695.6</b>	<b>4.7</b>	<b>5.5</b>	<b>4.1</b>	<b>4.2</b>	<b>3.9</b>	

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<b>Single Sector Aggressive</b>							
AMP's SMT Int'l Shares - Value	3.6	34.1	19.1	6.6	4.7	1.6	
AMP's SMT Int'l Shares - Growth	3.6	24.8	20.6	10.3	8.6	4.0	
AMP's SMT Australasian Shares - Value	2.8	22.9	17.9	12.6	8.9	8.7	
AMP's SMT Int'l Shares - Passive	4.0	20.6	17.8	9.4	7.9	4.8	
Mercer Shares	18.5	20.1	15.9	8.4	6.3	4.1	
Aventine's SuperLife Oseas Shares Hedged	120.0	19.9	20.2	11.1	10.7	6.9	
ASB Australasian Shares	8.3	19.4	15.9	9.0	7.3	7.9	
Aventine's SuperLife NZ Shares	84.2	19.2	21.4	14.7	12.9	11.6	
ASB World Shares	12.0	18.9	16.2	8.2	7.3	2.2	
Aventine's SuperLife Oseas Shares Unhedged	78.8	18.4	15.2	6.2	5.6	1.5	
AMP's SMT Multi-Mgr Australasian Shares	5.6	16.6	14.8	9.2	7.1	7.9	
Tower LifeSaver Equity	30.0	14.0	14.5	6.4	6.3	4.2	
Tower LifeSaver Trans Tasman Equity	11.1	11.8	13.6	9.3	7.2	6.5	
AMP's SMT Global Listed Property	6.0	10.7	16.7	9.4	11.2	4.7	
AMP's SMT Australasian Listed Property	3.2	9.6	13.7	12.3	9.3	6.7	
Aventine's SuperLife Property	42.7	7.4	12.6	9.8	9.4	4.1	
ASB Global Property Shares	21.7	6.9	13.1	6.7	9.0	1.7	
Aventine's SuperLife Australian Shares	53.9	3.6	6.8	1.2	1.8	3.0	
Aventine's SuperLife Gemino	4.5	2.2	13.9	-7.0	-1.9	-2.7	
Aventine's SuperLife Emerging Markets	33.4	-0.3	1.8				
Aventine's SuperLife UK Growth	0.4	-1.4					
<b>All Single Sector Aggressive</b>	<b>548.3</b>	<b>14.5</b>	<b>15.4</b>	<b>8.3</b>	<b>7.8</b>	<b>5.1</b>	

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<b>Single Sector Defensive</b>							
Aventine's SuperLife Cash	111.6	2.7	2.7	2.8	2.8	3.0	
AMP's SMT Global Bonds	3.2	2.7	4.2	3.9	4.9	5.5	
Tower LifeSaver Preservation	51.0	2.6	2.4	2.3	2.4	2.6	
Aventine's SuperLife NZ Bonds	136.1	2.4	3.9	4.6	5.2	5.4	
AMP's SMT Cash	35.6	2.2	2.2	2.3	2.4	2.6	
ASB Cash Fund	56.2	2.2	2.0	2.0	1.9	2.2	
AMP Cash	67.6	1.8	1.8	2.0	2.0	2.2	
Aventine's SuperLife UK Income	0.1	1.8					
Mercer Cash	33.3	1.6	1.7	2.0	2.1	2.2	
ASB World Fixed Interest	31.4	0.6	2.3	2.7	3.5	3.9	
Aventine's SuperLife UK Cash	9.5	0.4					
ASB New Zealand Fixed Interest	32.2	0.2	2.5	3.4	4.1	4.5	
Aventine's SuperLife Overseas Non Govt Bonds	60.6	-0.1	4.1	3.6	4.5	6.0	
Tower LifeSaver NZ Fixed Income	11.1	-0.1	2.3	3.2	3.9	4.3	
AMP's SMT NZ Fixed Interest	8.4	-0.1	2.5	3.3	4.1	4.9	
Aventine's SuperLife Overseas Govt Bonds	58.5	-1.6	2.0	2.3	4.1	4.9	
<b>All Single Sector Defensive</b>	<b>706.3</b>	<b>1.5</b>	<b>2.7</b>	<b>2.9</b>	<b>3.4</b>	<b>3.8</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>4,889.9</b>	<b>8.9</b>	<b>9.3</b>	<b>5.8</b>	<b>5.6</b>	<b>4.4</b>	
<b>Cash Benchmark (Net)</b>		<b>2.3</b>	<b>2.2</b>	<b>2.1</b>	<b>2.0</b>	<b>2.1</b>	
<b>CPI</b>		<b>0.9</b>	<b>0.8</b>	<b>2.1</b>	<b>1.9</b>	<b>1.9</b>	

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