ERIKSEN & ASSOCIATES LTD

Actuaries & Investment Strategists

Eriksen's Master Trust Survey
Results to 31 December 2013

Investment Returns

Over the 12 months to 31 December growth funds rose 13.2%, balanced funds gained 9.4% and conservative funds had positive returns of 4.4% after tax and fees – while inflation was1.6%. While marginally down on last quarter these are still excellent returns.

Economic Commentary

Well, it was a good year for equities with very strong returns across most countries' bourses. With record low interest rates (due mainly to the quantitative easing policies around the world) and the tapering that's now underway (resulting in increased longer term rates), fixed interest had low or negative returns over the year. With interest rates starting to go up in some markets fixed interest isn't looking like its traditional "safe" investment. In fact we start the year with many equity markets at record highs but interest rates at record lows.

In New Zealand the economy is being boosted by strong commodity prices (especially dairy produce) and the Christchurch rebuild. Business confidence has improved and the Reserve Bank had indicated that there will be a 0.25% OCR increase in March. This should be followed by a fairly consistent series of 0.25% rises throughout the year.

The Reserve Bank introduced restrictions on high LVR mortgage lending from 1 October to try and reduce the high property increases (mainly Auckland but also Christchurch). It is still too early to say definitively how this policy will play out but it does seem to have slowed residential house sales down.

The NZ dollar strengthened over the year to 31 December against the Australian and Yen but weakened slightly against the other main currencies. With much of the fear out of the market, gold (as an alternative safe haven) took a battering over the year.

Japan has joined the Quantitative Easing program with an intention of increasing inflation to 2% per annum (rather than the 1% deflation that has plagued the country for the last 20 years). The Bank of Japan continued with its policy of purchasing assets (mainly Japanese government bonds) to achieve its aim of expanding the monetary base at an annual pace of 60-70 trillion yen. Whether this works or not is still to be seen although Japanese core inflation year on year to December 2013 was 0.6%.

China is expected to grow at a reduced rate of around 7% over the coming year. However their demand for our agricultural products is likely to remain very strong which will give a boost to our economy. Certainly local businesses are more confident and are looking to employ more staff. Hopefully this will result in the currently high unemployment rate of 6.2% reducing in the coming months.

The reduced growth in China has already resulted in a lower demand for the mineral resources in Australia. The resulting lower growth across the Tasman is expected to continue over the next few years. Already we are seeing the effect of the differing growth rates in Australia and New Zealand in the change in our net immigration (outflow of 4,000 mid 2012 to an inflow of 22,500 for the year to December 2013).

As the mining sector investment in Australia turns down the non-mining sector is starting to pick up the slack. Export companies have been helped recently by the Reserve Bank of Australia (RBA) Governor jaw-boning down the currency which had been obstinately rising back towards parity with the US$ again after falls earlier in the year. At the time of writing the Australian dollar had fallen to around 0.89 against the US$ and with levels of 0.85 or 0.80 being tipped as a new equilibrium. The RBA also left interest rates unchanged at 2.5% for the 5th straight monthly meeting in a row. We do not expect any further interest rate falls.

Emerging markets saw disappointing returns last year as investors reacted to a number of themes. Improving developed economies growth and moderating growth in EM, poor earnings growth in the BRIC countries and counter-cyclical factors in a strongly defensive stock rally has seen markets firmly rerated. The uncertainty surrounding the US Federal Reserve's tapering timetable caused investors to withdraw from both EM bond and equity markets so liquidity tightened. Investors started ignoring long term fundamentals that support strong growth in EM. Specialist investment managers in this sector suggest that expectations are now too low and that considerable upside exists in selected countries and stocks.

Whilst the economic risks appear to have eased the geopolitical risks are increasing. Potential hotspots include:

- North Korea - political execution of Kim Jong-un's uncle
- China - territorial grab for disputed islands in East and South China Sea
- Ukraine - tug of war between EU and Russia
- Russia - oil grab in the Arctic circle
- Middle East - Syria, Iran, Iraq etc

It should be another very interesting year!

The Year Ahead

Although all the signals look good for New Zealand's economy in 2014 such as the Reserve Bank looking to raise interest rates a number of times, growth forecast to top 3.5% and strength in world prices for our products, we remain cautious about the road ahead. We are still in the middle of a Global Financial Crisis and heavy weight players in the world economy are making some big moves without knowing the consequences: this game hasn't actually been played before.

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Fund Name	Fund Size	Annualised Returns (Net of Tax & Expenses)					No of
	$ million	1 Year	2 Year	3 Year	4 Year	5 Year	Employers
Growth Funds							
AMP Aggressive (fmly High Equity)	227.3	13.1	13.0	5.8	5.5	7.0	
AMP Growth (fmly Lifesteps Growth)	39.3	11.4	11.4	5.5	5.2	6.4	
AMP's SMT Multi-Manager Growth	112.6	12.8	12.0	5.7	5.6	8.2	
Aon Growth	7.0	11.6	12.9	8.1	7.9	9.8	38
ASB SMT Growth	211.4	15.7	13.5	7.8	7.4	8.7	
Aventine's SuperLife Aim80	19.1	5.9	9.6	5.0	5.4	7.5	129
Mercer Growth	63.1	11.9	10.8	6.2	6.0	7.6	
Tower LifeSaver Growth	37.3	9.7	10.7	6.0	5.9	7.1	
All Growth Funds	***717.0***	***13.2***	***12.5***	***6.4***	***6.2***	***7.7***	

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Balanced Funds							
AMP ANZ Balanced Plus (fmly OnePath Balanced Plus)	214.6	12.9	12.9	8.5	7.7	8.9	
AMP ASB Balanced	50.3	10.5	9.7	5.8	5.9	7.2	
AMP Balanced	433.0	8.7	9.3	5.3	5.0	5.8	
AMP Moderate Balanced (fmly Lifesteps Moderate Balanced)	107.8	7.2	7.9	4.6	4.4	5.1	
AMP Tower Balanced	125.7	8.1	9.1	5.2	5.4	6.6	
AMP Tyndall Balanced*	104.0	10.3	10.4	6.2	5.9	7.1	
AMP's SMT Multi-Manager Balanced	235.6	9.1	9.3	5.3	5.4	7.3	
Aon Balanced	46.1	8.8	10.2	6.8	6.7	8.3	51
ASB SMT Balanced	488.9	11.5	10.6	6.8	6.6	7.5	
Aventine's SuperLife Aim60	45.8	4.5	8.1	4.9	5.3	7.0	129
Aventine's SuperLife Ethica	8.4	7.3	8.9	6.3	5.7	6.4	
Aventine's SuperLife SuperLife60 (fmly Managed60)	161.6	7.8	10.6	6.7	6.7	7.5	129
Mercer Active Balanced	68.8	10.0	9.4	5.9	5.8	7.4	
Tower Lifesaver Balanced	219.0	6.7	7.7	4.9	5.0	5.7	
All Balanced Funds	***2,309.5***	***9.4***	***9.8***	***6.0***	***5.9***	***6.9***	

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

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Conservative Funds							
AMP Capital Assured	99.9	2.9	2.4	2.5	2.6	2.6	
AMP Conservative (fmly Capital Stable)	158.0	3.7	4.7	3.8	3.8	3.9	
AMP Moderate (fmly Lifesteps Moderate)	76.2	5.7	6.4	4.3	4.1	4.5	
AMP's SMT Multi-Manager Conservative	110.4	4.3	5.3	4.4	4.7	5.5	
Aon Capital Stable	5.5	0.4	2.9	3.1	3.6	4.0	19
Aon Conservative	17.1	3.0	5.5	4.8	5.0	5.9	47
ASB SMT Conservative	118.8	7.0	7.4	5.4	5.4	6.0	
Aventine's SuperLife Aim30	34.8	2.8	6.0	4.7	5.1	5.7	129
Aventine's SuperLife SuperLife30 (fmly Managed30)	21.0	2.2	6.3	4.6			129
Mercer Conservative	36.0	4.7	5.1	4.0	4.3	5.8	
Tower LifeSaver Conservative	20.1	3.9	5.0	4.3	4.4	5.0	
All Conservative Funds	***697.8***	***4.4***	***5.3***	***4.2***	***4.1***	***4.6***	

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Single Sector Aggressive							
AMP's SMT Australasian Listed Property	3.2	4.7	13.2	11.3	8.9	9.5	
AMP's SMT Australasian Shares - Value	2.8	18.9	19.0	11.9	8.5	11.1	
AMP's SMT Global Listed Property	6.0	6.9	12.9	8.5	10.3	13.2	
AMP's SMT International Shares - Growth	3.8	29.4	20.4	10.6	8.9	9.3	
AMP's SMT International Shares - Passive	4.3	28.2	18.7	10.1	8.8	9.0	
AMP's SMT International Shares - Value	4.0	40.4	20.7	6.9	5.7	7.2	
AMP's SMT Multi-Manager Australasian Shares	5.3	8.9	13.9	7.4	6.1	9.6	
ASB Australasian Shares	7.2	13.3	16.0	7.9	6.7	10.5	
ASB Global Property Shares	22.7	2.5	9.8	6.0	8.1	9.2	
ASB World Shares	14.2	26.1	17.2	9.4	8.7	9.4	
Aventine's SuperLife Australian Shares	54.1	-9.7	-0.1	-2.8	-1.4	5.5	
Aventine's SuperLife Emerging Markets	35.8	-5.0	2.3				
Aventine's SuperLife Gemino	7.1	35.4	32.5	3.3	6.7	10.6	
Aventine's SuperLife NZ Shares	94.9	23.2	29.9	17.0	15.1	16.7	
Aventine's SuperLife Overseas Shares Hedged	130.1	22.6	18.6	9.7	10.4	13.0	
Aventine's SuperLife Overseas Shares Unhedged	83.8	23.3	15.8	7.4	6.2	5.3	
Aventine's SuperLife Property	42.9	2.0	10.9	9.9	8.9	9.7	
Aventine's SuperLife UK Growth	0.5	1.9					
Mercer Shares	16.7	22.2	18.1	9.0	7.6	8.7	
Tower LifeSaver Equity	31.1	12.3	11.8	4.7	5.2	6.7	
Tower LifeSaver Trans-Tasman Equity	10.8	8.0	14.1	8.5	6.6	8.5	
All Single Sector Aggressive	***581.3***	***14.9***	***15.9***	***8.2***	***7.9***	***9.7***	

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Single Sector Defensive							
AMP Cash	65.1	1.8	1.8	1.9	2.0	2.1	
AMP's SMT Cash	35.4	2.2	2.2	2.2	2.3	2.4	
AMP's SMT Global Bonds	2.8	1.5	3.3	4.3	4.7	5.3	
AMP's SMT NZ Fixed Interest	7.9	-0.6	1.7	3.6	3.9	4.0	
ASB Cash Fund	57.2	2.2	2.0	2.0	2.0	2.0	
ASB New Zealand Fixed Interest	33.3	-0.2	1.7	3.6	4.0	3.7	
ASB World Fixed Interest	32.3	0.2	2.1	3.2	3.5	3.1	
Aventine's SuperLife Cash	116.9	2.7	2.7	2.8	2.8	2.8	
Aventine's SuperLife NZ Bonds	136.6	1.5	3.6	4.9	5.0	4.7	
Aventine's SuperLife Overseas Government Bonds	51.2	-2.8	1.0	2.7	3.8	3.5	
Aventine's SuperLife Overseas Non-Government Bonds	66.0	-1.0	3.6	4.0	4.4	4.8	
Aventine's SuperLife UK Cash	10.1	1.7					
Aventine's SuperLife UK Income	0.1	2.6					
Mercer Cash	25.0	1.6	1.7	1.9	2.1	2.0	
Tower LifeSaver NZ Fixed Income	10.8	-0.7	1.6	3.5	3.7	3.4	
Tower LifeSaver Preservation	50.3	2.3	2.4	2.3	2.4	2.5	
All Single Sector Defensive	***701.0***	***1.1***	***2.5***	***3.1***	***3.3***	***3.3***	

Fund Name	Fund Size $ million	Annualised Returns (Net of Tax & Expenses) 1 Year	2 Year	3 Year	4 Year	5 Year	No of Employers
Total Funds	**5,006.6**	**8.7**	**9.2**	**5.7**	**5.5**	**6.5**	
Cash Benchmark (Net)		**1.8**	**1.9**	**1.9**	**1.9**	**1.9**	
CPI		**1.6**	**1.3**	**1.5**	**2.1**	**2.1**	

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