

# ERIKSEN & ASSOCIATES LTD

Actuaries & Investment Strategists

## Eriksen's Master Trust Survey Results to 30 June 2014

### Investment Returns

Over the 12 months to 30 June growth funds rose 11.5%, balanced funds gained 9.2% and conservative funds had positive returns of 5.7% after tax and fees – while inflation was 1.6%. These results are down on last quarter.

### Economic Commentary

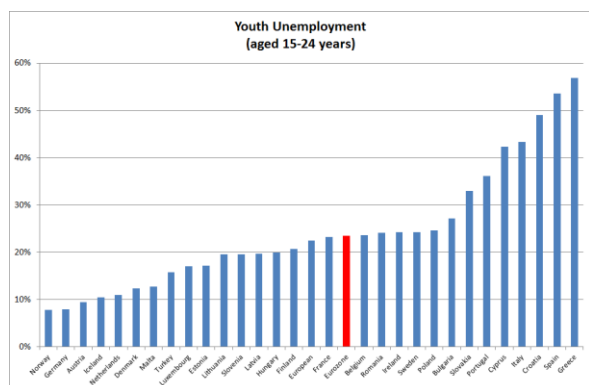
Strong job growth in the US economy (a further 288,000 jobs in June, following 224,000 in May) and a fall in the unemployment rate to 6.1% was ahead of general expectations and has increased confidence that the US recovery is underway.

Other indicators such as the Institute for Supply Management's non-manufacturing index reading of 56 in June, and 56.3 in May also seem to be confirming this trend. As a consequence US stock markets rose sharply to record highs in early July with the Dow Jones exceeding 17,000 for the first time, although US Treasury bill rates fell.

This optimism was in strong contrast to the US Commerce Department's announcement earlier in June that GDP fell by 2.9% on an annualised basis in the March-quarter which at the time drew some mildly pessimistic reactions. At the time this result was attributed to the effects of a particularly harsh winter, lower business inventories, and lower consumer spending – especially on health care. Building activity was hit in particular by the cold winter.

Meanwhile European inflation remains low in spite of the ECB's recent attempts to drive the value of the Euro down, and to counter the possibility of deflation. Within the Eurozone inflation was still only 0.5% in June, marking the ninth consecutive month that it has been below target.

An issue that affects Europe is the level of youth unemployment. There is a real risk of there being a "lost generation" as evidenced by the graph below.



Energy issues have been a common theme internationally over the month of June or so due to political upheavals amongst energy producers and pushback against green initiatives by fossil fuels users.

While the Ukraine situation has raised concerns of interruptions of Europe's Russian sourced gas supplies (and Ukraine has to face big price hikes for its gas), the unfolding insurgency in Iraq could yet severely impact on Iraqi and other Middle Eastern supplies of crude oil. The United States and Canada meanwhile have increased their own domestic supplies of well-priced shale oil and gas, however these have come under increasing fire for their environmental impact. Shale oil production is a messy process which pollutes water and produces greenhouse gases, while the substitution of gas for coal fired power plants is not necessarily an environmental no-brainer since the gas extraction itself can produce previously unrecognised greenhouse gases.

The mounting use of cheap shale gas by the US has also caused chagrin in Europe where higher energy costs are starting to make European manufacturing uncompetitive against the US. This has led to calls to relax the EU decreed push towards renewables and to allow fracking in the UK, Italy and Poland, although there is still considerable environmental opposition.

In our view markets are delicately balanced with downside risks potentially much more severe than the upside. That is because interest rates are at record lows (except for New Zealand) and stock markets at record highs.

Whilst the level of quantitative easing is reducing in the US it is being maintained in Europe and Japan. However at some stage later this year or next interest rates are likely to start rising in Australia and the US. Inflation is low in Europe but increasing elsewhere.

Geo-political risks are also high with a Shia/Sunni civil war in Iraq and Syria and ongoing skirmishes in the Eastern Ukraine. The disputed islands (oil resources) in the East and South China Seas could also escalate especially with Japan talking tough.

We consider it likely equity markets will fall by at least 10% to 15% at some stage in the next 12 to 18 months. We also expect the Reserve Bank to continue to raise the OCR to between 4.5% and 5% over the next 18 months.

Australia and New Zealand stock markets have flattened out but remain frothy. The Australian economy is performing better than expected thanks to China remaining stable. This is despite the Governor of the RBA trying to talk down the Australian dollar.

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## Eriksen's Master Trust Survey Results to 30 June 2014

Fund Name	Fund Size \$ million	Annualised Returns (Net of Tax & Expenses)				
		1 Year	2 Year	3 Year	4 Year	5 Year
<b>Growth Funds</b>						
AMP Aggressive	235.6	13.8	14.8	8.4	8.6	7.8
AMP Growth	41.4	12.4	13.0	7.7	7.8	7.2
AMP's SMT Multi-Manager Growth	120.3	11.4	13.4	7.3	8.3	8.4
Aon Growth	8.7	10.2	12.2	8.5	8.9	9.5
ASB SMT Growth	221.8	9.5	13.2	8.1	9.3	9.2
Aventine's SuperLife Aim80	18.9	7.0	9.5	5.3	7.3	7.7
Fisher Funds LifeSaver Growth	42.1	10.9	11.7	7.5	7.7	7.5
Mercer Growth	62.8	11.5	11.9	7.3	7.9	7.9
<b>All Growth Funds</b>	<b>751.6</b>	<b>11.5</b>	<b>13.4</b>	<b>7.9</b>	<b>8.6</b>	<b>8.3</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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## Eriksen's Master Trust Survey Results to 30 June 2014

Fund Name	Fund Size \$ million	Annualised Returns (Net of Tax & Expenses)				
		1 Year	2 Year	3 Year	4 Year	5 Year
<b>Balanced Funds</b>						
AMP ANZ Balanced Plus	222.2	11.5	13.5	9.1	9.3	9.5
AMP ASB Balanced	52.1	8.7	10.3	7.0	7.2	7.8
AMP Balanced	452.6	9.9	10.4	6.8	7.0	6.5
AMP Fisher Balanced	131.9	11.5	10.7	7.2	6.6	7.5
AMP Moderate Balanced	114.6	8.6	9.0	5.9	6.1	5.8
AMP Tyndall Balanced	107.1	9.2	10.5	6.9	6.9	7.5
AMP's SMT Multi-Manager Balanced	247.9	8.8	10.2	6.4	7.1	7.5
Aon Balanced	55.3	8.2	9.6	7.1	7.4	8.0
ASB SMT Balanced	510.2	7.8	10.4	7.0	7.9	8.0
Aventine's SuperLife Aim60	44.7	6.3	8.1	5.4	6.9	7.2
Aventine's SuperLife Ethica	10.0	5.4	8.0	6.1	6.0	6.2
Aventine's SuperLife SuperLife60	171.8	9.0	10.4	7.2	8.2	8.1
Fisher Funds Lifesaver Balanced	228.6	9.0	8.7	6.2	6.2	6.3
Mercer Active Balanced	70.0	10.4	10.4	6.8	7.3	7.6
<b>All Balanced Funds</b>	<b>2,419.1</b>	<b>9.2</b>	<b>10.4</b>	<b>7.0</b>	<b>7.4</b>	<b>7.5</b>

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Fund Name	Fund Size \$ million	Annualised Returns (Net of Tax & Expenses)				
		1 Year	2 Year	3 Year	4 Year	5 Year
<b>Conservative Funds</b>						
AMP Capital Assured	101.3	4.4	3.2	2.9	3.0	3.0
AMP Conservative	165.1	5.6	5.4	4.4	4.7	4.6
AMP Moderate	81.4	7.4	7.3	5.3	5.5	5.2
AMP's SMT Multi-Manager Conservative	115.2	5.1	5.6	4.7	5.1	5.6
Aon Capital Stable	5.3	3.8	3.0	3.5	3.5	4.2
Aon Conservative	16.7	5.0	5.1	4.7	5.2	5.9
ASB SMT Conservative	123.4	6.2	7.5	5.7	6.3	6.6
Aventine's SuperLife Aim30	32.8	5.3	5.9	5.1	5.8	6.1
Aventine's SuperLife SuperLife30	21.0	5.8	6.3	5.2		
Fisher Funds LifeSaver Conservative	21.3	6.1	5.5	4.8	4.7	5.3
Mercer Conservative	35.2	6.1	5.8	4.6	4.8	5.6
<b>All Conservative Funds</b>	<b>718.7</b>	<b>5.7</b>	<b>5.8</b>	<b>4.6</b>	<b>4.8</b>	<b>5.0</b>

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Fund Name	Fund Size \$ million	Annualised Returns (Net of Tax & Expenses)				
		1 Year	2 Year	3 Year	4 Year	5 Year
<b>Single Sector Aggressive</b>						
AMP's SMT Australasian Listed Property	2.9	7.5	12.5	11.7	13.4	12.7
AMP's SMT Australasian Shares - Value	3.3	19.6	24.2	14.8	14.0	12.5
AMP's SMT Global Listed Property	6.8	12.4	14.2	10.8	13.4	16.9
AMP's SMT International Shares - Growth	4.2	27.2	22.0	13.2	12.3	10.8
AMP's SMT International Shares - Passive	4.6	16.6	19.9	11.8	11.6	10.1
AMP's SMT International Shares - Value	4.6	15.2	23.9	9.1	8.7	7.6
AMP's SMT Multi-Manager Australasian Shares	5.5	10.5	15.6	8.7	10.0	9.8
ASB Australasian Shares	7.5	12.6	17.6	9.3	10.6	10.1
ASB Global Property Shares	25.7	5.2	9.3	7.6	10.3	13.6
ASB World Shares	13.4	10.6	15.9	9.1	10.5	9.5
Aventine's SuperLife Australian Shares	33.1	-2.9	1.4	-1.6	2.0	2.7
Aventine's SuperLife Emerging Markets	12.9	3.2	3.0	-3.4		
Aventine's SuperLife Gemino	8.0	34.0	30.2	6.2	7.4	4.8
Aventine's SuperLife New Zealand Shares	70.8	18.6	24.1	14.4	16.4	16.0
Aventine's SuperLife Overseas Shares Hedged	109.8	18.9	20.1	11.6	14.5	13.6
Aventine's SuperLife Overseas Shares Unhedged	67.6	8.8	14.6	8.4	7.7	6.7
Aventine's SuperLife Property	23.0	7.6	11.0	10.4	12.1	12.9
Aventine's SuperLife UK Growth	0.9	2.3				
Mercer Shares	17.9	16.5	19.0	10.1	10.9	9.3
Tower LifeSaver Equity	33.9	13.2	15.1	7.1	7.9	7.3
Tower LifeSaver Trans-Tasman Equity	12.1	11.9	16.3	10.4	10.6	9.5
<b>All Single Sector Aggressive</b>	<b>468.5</b>	<b>13.1</b>	<b>16.5</b>	<b>9.3</b>	<b>10.9</b>	<b>10.6</b>

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Fund Name	Fund Size \$ million	Annualised Returns (Net of Tax & Expenses)				
		1 Year	2 Year	3 Year	4 Year	5 Year
<b>Single Sector Defensive</b>						
AMP Cash	61.7	1.9	2.0	2.0	2.1	2.1
AMP's SMT Cash	32.7	1.9	2.1	2.1	2.3	2.4
AMP's SMT Global Bonds	2.5	3.5	3.6	4.5	4.3	5.2
AMP's SMT New Zealand Fixed Interest	6.8	1.7	1.5	3.2	3.4	4.1
ASB Cash Fund	58.2	2.3	2.2	2.0	2.0	2.0
ASB New Zealand Fixed Interest	35.3	1.8	1.6	3.1	3.5	4.0
ASB World Fixed Interest	35.5	5.0	2.8	3.9	3.5	3.9
Aventine's SuperLife Cash	111.8	2.6	2.6	2.7	2.8	2.8
Aventine's SuperLife NZ Bonds	117.3	3.0	3.3	4.2	4.6	5.2
Aventine's SuperLife Overseas Government Bonds	51.9	2.4	1.4	3.9	3.8	4.3
Aventine's SuperLife Overseas Non-Government Bonds	48.1	5.9	4.0	5.4	5.1	5.3
Aventine's SuperLife UK Cash	9.9	-0.4	0.2			
Aventine's SuperLife UK Income	0.4					
Mercer Cash	23.4	1.9	1.8	1.9	2.0	2.1
Tower LifeSaver New Zealand Fixed Income	10.8	2.1	1.5	3.0	3.3	3.8
Tower LifeSaver Preservation	48.5	2.4	2.5	2.3	2.3	2.4
<b>All Single Sector Defensive</b>	<b>654.8</b>	<b>2.7</b>	<b>2.5</b>	<b>3.1</b>	<b>3.2</b>	<b>3.4</b>

Fund Name	Fund Size \$ million	Annualised Returns (Net of Tax & Expenses)				
		1 Year	2 Year	3 Year	4 Year	5 Year
<b>Total Funds</b>	<b>5,012.7</b>	<b>8.6</b>	<b>9.7</b>	<b>6.5</b>	<b>7.0</b>	<b>7.0</b>
<b>Cash Benchmark (Net)</b>		<b>2.0</b>	<b>1.9</b>	<b>1.9</b>	<b>2.0</b>	<b>1.9</b>
<b>CPI</b>		<b>1.6</b>	<b>1.1</b>	<b>1.1</b>	<b>2.1</b>	<b>2.0</b>

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Page | 6

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