ERIKSEN & ASSOCIATES LTD

Actuaries & Investment Strategists

Eriksen's Master Trust Survey
Results to 31 December 2014

Investment Returns

The annual rate of CPI fell to 0.7% for the 2014 year. Growth funds returned 8.9% over the year, balanced funds were up 8.4% and conservative funds gained 6.3%. The returns from growth and balanced funds are down from last quarter but conservative funds are up 0.3%. Over the longer term (five years) single sector aggressive funds have been the strongest performers, followed by balanced and growth funds.

Economic Commentary

First up is the dramatic fall in the price of oil which looks likely to cripple the economies of several non-Middle Eastern producers including Russia, Nigeria, Indonesia and Venezuela. While there has been some debate as to whether the price decline is the result of supply or demand factors, both seem to have had an effect. There has been significantly increased supply from non-traditional higher cost sources such as the US shale oil fields and deep water drilling. Demand for oil from the emerging economies (especially China) has also fallen, as it has with other raw materials such as coal and iron ore, as growth has slowed.

Usually the fall in demand would be balanced by reduced supplies from OPEC countries. In this case it appears that Saudi Arabia has its own reasons for wanting to keep the oil price down for a time. The effects of the low oil prices on emerging economies are already being seen. Venezuela is in recession and has crippling inflation, the Russian economy is on its knees, Nigeria is struggling and there have been flow on effects to other emerging countries.

Next is the Eurozone, after another year in which it failed to resolve its long standing structural problems. Since the political issues involved in agreeing to reform seem largely unresolvable, any periodic crises tend to be dealt with in a manner which makes them go away for the short term, without resolving them for the longer term. The latest crisis involves Greece which has been bullied into austerity by bailouts which just kept increasing its indebtedness, a circumstance which has infuriated its citizens. Now that their latest government has fallen, the Greeks have elected a left leaning populist government which has campaigned on leaving the Euro and returning to the drachma. Given that a new drachma would be valued far below the euro, this would probably mean Greece being unable service its debt and hence defaulting….

At the time of the earlier Greek bailouts policy makers felt a Greek exit from the Euro would have a knock on effect to other struggling countries such as Italy and Spain being unable to find lenders to take their debt. Now the European decision makers (headed by the Germans) seem confident the Eurozone has been reformed sufficiently to handle a Greek exit without disaster. We may shortly find out whether this optimism is justified. Either way an orderly exit process is required.

While much of the rest of the world seems likely to struggle through 2015 the US looks likely to continue to recover, with the dollar likely to strengthen against other major currencies. The Federal Reserve has said it is willing to risk inflation rising above 2%. It intends to "normalize policy" and increase interest rates during 2015, probably mid-year – even at the risk of slowing the economy. US job growth has been strong in recent months which has reduced unemployment below 6% last year. However the true level of unemployment is much higher given the large numbers in part time work who would prefer to be full time and the large number of longer term unemployed.

While the US appears to have recovered well over the last few years, its growth just averaged around 2% since 2000. Well below the 3% plus which has traditionally been seen as normal for a healthy economy. This clearly demonstrates the gap between the stock markets at record highs and the real economy.

Elsewhere the New Year looks like a continuation of the old one. China has slowed and seems unlikely to grow at above 7% in the immediate future. Japan's experiment with stimulating the economy under Mr Abe seems to have stalled after two quarters of a shrinking economy. Financial markets are still beset by systemic risk. There is a fundamental tension between the inconsistent global economic "recovery" and the share and other asset prices which have been inflated by the massively increased money supply.

Global economic events most likely to shape 2015 are likely to be completely unexpected to most of us. In the past only the most prescient were able to predict the global economic crisis. The fall in oil and other commodities prices should enable more consumption for some. Deflation, however, will make it difficult for politicians, Central Bankers and borrowers to pay off debt more quickly. We can but wait and see how long this low interest rate environment can last or will geo-political events intervene?

How long will this euphoric state of affairs continue? Our guess is that something will happen this year. We suggest that you expect the unexpected and prepare for the worst while hoping for the best.

New Zealand's Official Cash Rate

The Reserve Bank of Australia has just announced an OCR cut of 0.25% taking the rate to an all-time low of 2.25%. New Zealand's OCR has stayed at 3.5% since July last year after four rounds of 0.25% hikes. It's unclear at this stage whether the Reserve Bank of New Zealand (RBNZ) will raise or cut rates next, as the latter was hinted at last week by the Governor of the RBNZ.

Dairy prices have lifted at the latest auction which has increased many forecasts for next season's pay out from Fonterra. However the drought conditions all over NZ will put a squeeze of farmers and may lift prices more, but only due to a lower output which won't necessarily increase earnings. Our rate of CPI has fallen to just 0.7% after a negative December quarter, and is predicted by many to be negative again for the March quarter however on the flip side the property market is continuing to boom with no sign of slowing. The RBNZ has a difficult track to manoeuvre with many economic indicators seemingly at odds with one another.

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Fund Name	Fund Size	Annualised Returns (Net of Tax & Expenses)				
	$ million	1 Year	2 Year	3 Year	4 Year	5 Year
Growth Funds						
AMP Aggressive	236.6	9.2	11.2	11.8	6.8	6.4
AMP Growth	140.9	8.6	10.1	10.5	6.4	6.0
AMP's SMT Multi-Manager High Growth	57.0	8.5	10.6	10.8	6.4	6.2
Aon Growth	8.2	8.9	10.0	11.2	8.1	7.9
ASB Growth	241.6	9.6	12.6	12.2	8.3	7.9
Aventine's SuperLife Aim80	20.0	7.9	6.9	9.0	5.7	5.9
Aventine's SuperLife SuperLife Growth	184.6	8.1				
Aventine's SuperLife SuperLife80	1.7	7.6				
Fisher Funds LifeSaver Growth	46.8	8.3	9.0	9.9	6.6	6.4
Mercer Growth	64.1	9.5	10.7	10.4	7.0	6.7
All Growth Funds	***1,001.4***	***8.9***	***9.0***	***9.2***	***5.8***	***5.5***

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 ANZ Balanced Plus	238.5	10.6	11.8	12.2	9.1	8.4
AMP ASB Balanced	55.4	8.8	9.7	9.5	6.6	6.6
AMP Balanced	645.3	7.7	8.2	8.8	6.0	5.6
AMP Fisher Balanced	137.1	9.4	8.8	9.3	6.3	6.3
AMP Moderate Balanced	146.2	7.2	7.3	7.7	5.3	5.1
AMP Nikko AM Balanced	114.0	9.7	10.1	10.2	7.1	6.7
AMP's SMT Multi-Manager Balanced	170.2	7.6	8.5	8.8	6.0	6.0
Aon Balanced	47.7	7.7	8.0	9.0	6.8	6.7
ASB Balanced	557.0	8.7	10.1	10.0	7.3	7.0
Aventine's SuperLife Aim60	46.3	7.7	6.1	8.0	5.6	5.8
Aventine's SuperLife Ethica	12.3	8.6	7.9	8.8	6.9	6.2
Aventine's SuperLife SuperLife60	185.1	7.5	7.7	9.6	6.9	6.9
Fisher Funds Lifesaver Balanced	243.8	7.6	7.1	7.6	5.6	5.5
Mercer Active Balanced	71.6	8.9	9.5	9.2	6.6	6.4
All Balanced Funds	***2,670.6***	***8.4***	***8.9***	***9.3***	***6.6***	***6.4***

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Conservative Funds						
AMP Capital Assured	95.5	5.2	4.1	3.4	3.3	3.3
AMP Conservative	244.2	5.8	4.8	5.2	4.4	4.3
AMP Moderate	88.7	6.6	6.2	6.5	4.9	4.7
AMP's SMT Multi-Manager Conservative	66.0	5.7	5.1	5.5	4.9	5.0
Aon Capital Stable	5.2	5.8	2.8	3.6	3.6	3.9
Aon Conservative	13.2	6.6	4.6	5.6	5.0	5.2
ASB Moderate (previously Conservative)	134.4	7.6	7.3	7.5	6.0	5.9
Aventine's SuperLife Aim30	35.1	6.9	4.9	6.3	5.3	5.4
Aventine's SuperLife SuperLife Income	62.7	6.4				
Aventine's SuperLife SuperLife30	24.3	6.7	4.4	6.5	5.1	
Fisher Funds LifeSaver Conservative	22.8	6.2	5.1	5.4	4.8	4.8
Mercer Conservative	36.1	6.5	5.6	5.6	4.6	4.7
All Conservative Funds	***828.2***	***6.3***	***5.0***	***5.2***	***4.4***	***4.2***

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Single Sector Aggressive						
AMP Australasian Shares	4.0	1.3				
AMP International Shares	4.6	7.7				
AMP Passive International Shares	2.7	10.1				
AMP Property Fund	5.1	10.3				
AMP's SMT Listed NZ & Australian Property	4.7	21.6	12.9	16.0	13.8	11.4
AMP's SMT NZ & Australian Shares - Value	6.0	23.6	21.2	20.5	14.7	11.4
AMP's SMT Listed International Property	7.0	25.2	15.8	16.9	12.5	13.1
AMP's SMT International Shares - Growth	6.5	16.8	23.0	19.2	12.2	10.4
AMP's SMT International Shares - Passive	4.0	10.6	18.9	15.8	10.2	9.1
AMP's SMT International Shares - Value	5.5	3.9	20.8	14.8	6.1	5.3
AMP's SMT Multi-Manager NZ & Australian Shares	8.0	8.3	8.6	12.0	7.6	6.5
ASB Australasian Shares	7.8	8.7	11.0	13.5	8.1	7.1
ASB Global Property Shares	30.1	24.9	13.1	14.6	10.4	11.3
ASB World Shares	15.0	9.4	17.4	14.5	9.4	8.8
Aventine's SuperLife Australian Shares	34.4	-0.7	-5.3	-0.3	-2.3	-1.2
Aventine's SuperLife Emerging Markets	14.3	4.7	-0.2	3.1		
Aventine's SuperLife Gemino	8.2	-12.1	9.1	15.5	-0.8	2.6
Aventine's SuperLife New Zealand Shares	68.7	3.3	12.8	20.4	13.4	12.6
Aventine's SuperLife Overseas Shares Hedged	104.6	12.3	17.3	16.5	10.3	10.8
Aventine's SuperLife Overseas Shares Unhedged	75.0	11.9	17.5	14.5	8.5	7.3
Aventine's SuperLife Property	27.6	21.8	11.4	14.4	12.8	11.4
Aventine's SuperLife UK Growth	1.9	3.5	2.7			
Fisher Funds LifeSaver Equity	38.2	9.5	10.9	11.0	5.9	6.0
Fisher Funds LifeSaver Trans-Tasman Equity	12.5	11.6	9.8	13.2	9.3	7.6
Mercer Shares	19.0	12.1	17.0	16.0	9.8	8.5
All Single Sector Aggressive	***515.4***	***10.5***	***12.7***	***13.8***	***8.5***	***8.2***

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Fund Name	Fund Size	Annualised Returns (Net of Tax & Expenses)				
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Single Sector Defensive						
AMP Cash	81.4	2.2	2.1	2.1	2.1	2.1
AMP International Fixed Interest	0.7	3.4				
AMP New Zealand Fixed Interest	3.6	5.1				
AMP's SMT Cash	16.6	2.3	2.3	2.3	2.3	2.4
AMP's SMT International Fixed Interest	3.0	5.7	3.5	4.1	4.6	4.9
AMP's SMT NZ Fixed Interest	8.7	5.6	2.4	2.9	4.1	4.2
AMP's UK Cash Portfolio	21.1	-1.6	-0.1	-0.4	-0.4	-1.8
ASB Cash	61.7	2.7	2.4	2.2	2.1	2.1
ASB New Zealand Fixed Interest	39.2	5.0	2.4	2.8	4.0	4.2
ASB World Fixed Interest	38.9	5.8	3.0	3.3	3.8	3.9
Aventine's SuperLife Cash	108.9	2.8	2.7	2.8	2.8	2.8
Aventine's SuperLife New Zealand Bonds	111.0	5.6	3.5	4.2	5.1	5.2
Aventine's SuperLife Overseas Govt Bonds	45.4	7.0	2.0	3.0	3.8	4.4
Aventine's SuperLife Overseas Non Govt Bonds	51.8	7.7	3.3	5.0	4.9	5.1
Aventine's SuperLife UK Cash	9.6	-1.2	0.3			
Aventine's SuperLife UK Income	0.4	2.8	2.7			
Fisher Funds LifeSaver New Zealand Fixed Income	11.2	5.4	2.3	2.8	4.0	4.1
Fisher Funds LifeSaver Preservation	47.2	2.6	2.5	2.5	2.4	2.4
Mercer Cash	22.6	2.2	1.9	1.9	1.9	2.1
All Single Sector Defensive	***682.9***	***4.0***	***2.5***	***2.9***	***3.2***	***3.3***

Fund Name	Fund Size	Annualised Returns (Net of Tax & Expenses)				
	$ million	1 Year	2 Year	3 Year	4 Year	5 Year
Total Funds	**5,698.6**	**7.8**	**7.9**	**8.3**	**5.9**	**5.7**
Cash Benchmark (Net)		**2.3**	**2.1**	**2.0**	**2.0**	**2.0**
CPI		**0.7**	**1.2**	**1.1**	**1.3**	**1.8**

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