

ERIKSEN & ASSOCIATES LTD

Actuaries & Investment Strategists

ERIKSEN'S MASTER TRUST SURVEY: RESULTS TO 30 SEPTEMBER 2016

INVESTMENT RETURNS

New Zealand's Consumer Price Index fell to 0.2% for the year to 30 September 2016. The three year annualised rate fell to 0.6% while the five year rate remained unchanged from last quarter at 0.8%.

The average weighted return for all Growth funds over the year was 9.8%, a big turnaround from last quarter's result. Balanced funds gained 8.1% and Conservative funds rose 6.0%. Again, these returns were a big improvement on the 30 June results. The annualised five year return for Growth funds was 9.7%, Balanced funds returned 8.3%, and Conservative funds 5.5%.

ECONOMIC COMMENTARY

Investors were relieved to get to the end of the quarter without any major shocks. However the markets are still jittery. In our view the volatility is increasing, if anything. We repeat our concern for another imminent downturn of stock markets, either during November, or 2017. Time will tell. The following commentary may provide some context for our thinking.

Central Banks' Stimulus

The following graph gives a good illustration of why central banks (rightly or wrongly) continue to keep interest rates so low. Lower rates are 'theoretically' supposed to spur on inflation. The right of the vertical dotted line displays the increase in prices in the real economy i.e. the prices that central banks have been trying to stimulate with quantitative easing and loose monetary policy since around 2009. Evident in the graph is the fact that these policies have not had the desired effect on wages and consumer goods. Ultra-low and negative rates have spooked consumers and businesses into hoarding cash rather than spending it in the real economy. Instead the policies have significantly increased and distorted asset prices in financial markets.

Exhibit 12: QE has led to a wide dispersion between asset price inflation and 'real economy' inflation

Total return performance (local currency since 2009)



Source: Haver, Datastream

Japan

Japan undertook a comprehensive review of central bank policy measures in September as doubts emerged over the effectiveness of their QE programme and negative interest rate policy.

As a result of the review the Bank of Japan has adopted a new "yield curve control" policy. Principally, this policy entails less purchases of long maturity bonds, meaning yields at the long end of the yield curve will rise which would be positive for the Japanese economy.

Further to implementing controls on the yield curve, the BoJ has begun a new round of QE. But it isn't QE as we know it - the central bank is now purchasing Japanese *equities*. It will be fascinating to see how the policy plays out, and whether any other country follows suit.

Europe

The banking sector in Europe is in disarray with news trickling out that Germany's largest financial institution Deutsche Bank (DB) is in trouble. The bank is under serious pressure. A US\$14 billion fine (though this may be negotiated lower) was issued by the US Justice Department for mis-selling mortgage backed securities, causing DB's share price to drop sharply. Subsequently, ten large hedge funds have withdrawn their exposure to DB which is the main clearinghouse for trades in Europe.

If the situation with DB does not prove to be systemic, what we can still garner from this is that the trust and confidence in financial markets has not completely recovered since the GFC. Markets are fragile, investors will jump on any piece of negative information, resulting in large bouts of volatility.

We expect volatility to continue, with significant downside risk going forward. Valuations are stretched so much that investors are not being compensated for the amount of risk they are taking on.

Australasia

The RBNZ kept the OCR unchanged at 2.0% at their September meeting as expected. In their accompanying statement they indicated their "...current projections and assumptions indicate that further policy easing will be required to ensure that future inflation settles near the middle of the target range." Although the NZ economy continues to expand, with GDP growth figures at 30 June showing an improvement, the RBNZ are likely to effect further policy easing to ensure inflation settles at around 2%.

The RBA held its first meeting under new Governor Philip Lowe at the start of October, deciding to keep the cash rate at 1.5%. The market is currently pricing in a full 25 bps cut within the next year.

MASTER TRUSTS

The FMC Act comes into full force on 1 December. Company-run super schemes transitioning to a Master Trust (rather than retaining governance and administration of the scheme and complying with a more robust set of regulations), must complete the transition prior to this date. A large chunk of these scheme transitions occurred during the quarter with total master trust fund inflows of more than \$200m since 30 June.

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GROWTH FUNDS

Manager Name	Fund Name	FUM \$ million	Annualised Returns (Net of Tax & Expenses) %				
			1 Year	2 Year	3 Year	4 Year	5 Year
AMP	Aggressive	238.7	9.4	4.2	6.4	8.3	9.3
AMP	ANZ Growth	0.8					
AMP	ASB Growth	0.2					
AMP	Growth	181.3	8.5	4.1	6.0	7.5	8.4
AMP	Nikko AM Growth	1.1					
Aon	Growth	8.9	9.1	7.6	8.8	10.7	11.5
ASB	Growth	292.4	10.7	8.4	9.6	10.9	11.1
Fisher Funds	LifeSaver Growth	58.6	9.8	7.2	8.0	9.3	10.1
Mercer	Growth	106.5	8.5	6.8	8.4	9.1	9.0
Mercer	High Growth	18.9	9.7				
SuperLife	Aim80	21.0	8.4	7.2	7.6	7.8	8.6
SuperLife	SuperLife80	276.5	10.6	7.8	8.2		
SuperLife	SuperLife100	8.8	10.5	7.9	7.0		
All Growth Funds		1,213.6	9.8	6.5	7.8	9.1	9.7

Manager Name	FUM \$ million	Annualised Returns (Net of Tax & Expenses) %				
		1 Year	2 Year	3 Year	4 Year	5 Year
AMP	422.0	9.0	4.1	6.2	8.0	8.9
Aon	8.9	9.1	7.6	8.8	10.7	11.5
ASB	292.4	10.7	8.4	9.6	10.9	11.1
Fisher Funds	58.6	9.8	7.2	8.0	9.3	10.1
Mercer	125.4	8.7	6.8	8.4	9.1	9.0
SuperLife	306.3	10.4	7.8	8.1	7.8	8.6
All Growth Funds	1,213.6	9.8	6.5	7.8	9.1	9.7

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BALANCED FUNDS

Manager Name	Fund Name	FUM \$ million	Annualised Returns (Net of Tax & Expenses) %				
			1 Year	2 Year	3 Year	4 Year	5 Year
AMP	ANZ Balanced Plus	262.3	6.9	7.0	7.9	9.3	9.9
AMP	ASB Balanced	67.2	9.0	6.8	7.5	8.2	8.7
AMP	Balanced	762.9	7.4	4.0	5.4	6.5	7.3
AMP	Fisher Balanced	149.0	9.1	7.0	7.5	7.6	8.2
AMP	Moderate Balanced	262.9	6.7	4.0	5.1	5.9	6.5
AMP	Nikko AM Balanced	149.6	8.4	8.7	8.9	9.3	9.5
AMP	RIL Balanced	0.8					
Aon	Balanced	62.7	7.8	6.6	7.3	8.6	9.5
ASB	Balanced	650.2	9.0	7.5	8.3	9.0	9.3
Fisher Funds	Lifesaver Balanced	256.4	8.0	6.4	7.1	7.6	8.1
Mercer	Balanced	208.9	7.4	6.2	7.6	8.1	8.1
SuperLife	Aim60	54.2	8.1	6.9	7.1	7.0	7.8
SuperLife	Ethica	30.2	10.5	10.8	9.8	9.4	9.7
SuperLife	SuperLife60	221.2	10.8	7.5	7.7	8.1	9.0
All Balanced Funds		3,138.6	8.1	6.2	7.1	7.8	8.3

Manager Name	FUM \$ million	Annualised Returns (Net of Tax & Expenses) %					
		1 Year	2 Year	3 Year	4 Year	5 Year	
AMP	1,654.8	7.5	5.3	6.4	7.3	7.9	
Aon	62.7	7.8	6.6	7.3	8.6	9.5	
ASB	650.2	9.0	7.5	8.3	9.0	9.3	
Fisher Funds	256.4	8.0	6.4	7.1	7.6	8.1	
Mercer	208.9	7.4	6.2	7.6	8.1	8.1	
SuperLife	305.6	10.3	7.7	7.8	8.0	8.8	
All Balanced Funds		3,138.6	8.1	6.2	7.1	7.8	8.3

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CONSERVATIVE FUNDS

Manager Name	Fund Name	FUM \$ million	Annualised Returns (Net of Tax & Expenses)				
			%				
			1 Year	2 Year	3 Year	4 Year	5 Year
AMP	ANZ Conservative	0.6					
AMP	ASB Moderate	0.1					
AMP	Capital Assured	97.5	5.8	5.7	5.5	4.7	4.2
AMP	Conservative	289.2	4.8	3.5	4.2	4.2	4.6
AMP	Income Generator	0.1					
AMP	Moderate	114.9	5.8	3.7	4.7	5.1	5.6
AMP	Nikko AM Conservative	0.3					
Aon	Capital Stable	4.4	4.3	4.5	4.9	3.8	4.3
Aon	Conservative	14.4	5.9	5.8	5.9	5.4	5.9
ASB	Moderate	161.0	7.8	6.6	7.0	7.0	7.3
Fisher Funds	LifeSaver Conservative	30.0	6.6	5.8	5.8	5.7	6.0
Mercer	Conservative	34.7	5.2	4.7	5.4	5.2	5.3
Mercer	Moderate	53.6	6.2				
SuperLife	Aim30	34.6	7.0	5.9	6.1	5.6	6.2
SuperLife	SuperLife30	33.8	8.4	6.3	6.2	5.7	6.3
SuperLife	SuperLife Income	103.8	6.1	4.9	5.1		
All Conservative Funds		973.0	6.0	4.8	5.2	5.2	5.5

Manager Name	FUM \$ million	Annualised Returns (Net of Tax & Expenses)				
		%				
		1 Year	2 Year	3 Year	4 Year	5 Year
AMP	502.7	5.2	4.0	4.5	4.5	4.8
Aon	18.8	5.5	5.5	5.7	5.0	5.5
ASB	161.0	7.8	6.6	7.0	7.0	7.3
Fisher Funds	30.0	6.6	5.8	5.8	5.7	6.0
Mercer	88.3	5.8	4.7	5.4	5.2	5.3
SuperLife	172.2	6.7	5.4	5.5	5.7	6.3
All Conservative Funds		973.0	6.0	4.8	5.2	5.5

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DEFENSIVE FUNDS (SINGLE SECTOR)

Manager Name	Fund Name	FUM \$ million	Annualised Returns (Net of Tax & Expenses) %				
			1 Year	2 Year	3 Year	4 Year	5 Year
AMP	Cash	89.5	1.5	1.9	2.0	2.0	2.0
AMP	International Fixed Interest	2.2	3.9	3.8			
AMP	New Zealand Fixed Interest	8.0	4.1	4.9			
ASB	New Zealand Cash	66.3	2.0	2.3	2.4	2.3	2.2
ASB	New Zealand Fixed Interest	48.8	4.1	4.9	4.4	3.4	3.7
ASB	World Fixed Interest	47.5	5.0	4.1	4.4	3.4	3.5
Fisher Funds	LifeSaver NZ Fixed Income	13.9	4.6	5.4	4.7	3.5	3.7
Fisher Funds	LifeSaver Preservation	43.8	1.9	2.3	2.3	2.4	2.3
Mercer	Cash	26.5	1.5	1.8	1.9	1.8	1.8
SuperLife	Cash	150.1	2.2	2.6	2.6	2.6	2.7
SuperLife	Global Bond ETF	0.4					
SuperLife	New Zealand Bond ETF	0.6					
SuperLife	New Zealand Bonds	113.0	4.7	5.4	5.1	4.4	4.6
SuperLife	New Zealand Cash ETF	0.3					
SuperLife	Overseas Bonds	37.9	6.0	4.9	5.1	3.4	3.8
SuperLife	Overseas Non-Govt Bonds	68.0	7.3	4.5	5.3	3.9	4.8
SuperLife	UK Cash	15.6	(18.9)	(4.4)	(1.6)	(1.2)	
SuperLife	UK Income	0.6	(10.6)	1.4	2.9	2.6	
All Single Sector Defensive		733.0	3.0	3.4	3.4	2.9	3.2

Manager Name	FUM \$ million	Annualised Returns (Net of Tax & Expenses) %					
		1 Year	2 Year	3 Year	4 Year	5 Year	
AMP	99.7	1.7	2.2	2.0	2.0	2.0	
Aon	-						
ASB	162.7	3.5	3.6	3.6	3.0	3.0	
Fisher Funds	57.7	2.5	3.0	2.9	2.6	2.7	
Mercer	26.5	1.5	1.8	1.9	1.8	1.8	
SuperLife	386.5	3.3	3.7	3.9	3.3	3.8	
All Single Sector Defensive		733.0	3.0	3.4	3.4	2.9	3.2

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AGGRESSIVE FUNDS (SINGLE SECTOR)

Manager Name	Fund Name	FUM \$ million	Annualised Returns (Net of Tax & Expenses) %				
			1 Year	2 Year	3 Year	4 Year	5 Year
AMP	Australasian Shares	8.5	18.3	7.5			
AMP	International Shares	7.7	5.6	5.2			
AMP	Passive International Shares	3.9	4.4	3.8			
AMP	Property Fund	10.9	12.2	10.4			
ASB	Australasian Shares	7.6	23.4	11.8	10.4	12.6	12.6
ASB	Global Property Shares	38.5	8.3	14.3	14.3	12.4	13.8
ASB	World Shares	9.8	5.9	6.6	10.2	12.3	12.6
Fisher Funds	LifeSaver Equity	40.9	11.2	7.4	8.6	10.6	10.8
Fisher Funds	LifeSaver Trans-Tasman Equity	16.6	26.4	15.2	13.4	14.1	15.3
Mercer	Shares	25.5	10.7	8.3	11.0	13.2	12.9
SuperLife	Asia Pacific ETF	0.4	0.3				
SuperLife	Australian Dividend ETF	0.4	(3.9)				
SuperLife	Australian Financials ETF	0.2	2.9				
SuperLife	Australian MidCap ETF	17.6	21.1				
SuperLife	Australian Property ETF	0.3	10.8				
SuperLife	Australian Resources ETF	1.0	13.6				
SuperLife	Australian Shares	43.8	7.0	8.7	3.8	3.7	5.0
SuperLife	Australian Top 20 Leaders ETF	0.3	2.1				
SuperLife	Directly Held Investments	0.3					
SuperLife	Emerging Markets	14.0	0.8	0.8	3.5	2.5	2.8
SuperLife	Emerging Markets ETF	0.6	2.0				
SuperLife	Europe ETF	0.8	(8.5)				
SuperLife	Gemino	6.3	17.9	(3.1)	7.7	6.3	10.1
SuperLife	New Zealand 50 Portfolio ETF	27.6	27.9				
SuperLife	New Zealand Dividend ETF	1.4	26.4				
SuperLife	New Zealand MidCap ETF	0.4	23.1				
SuperLife	New Zealand Property ETF	0.6					
SuperLife	New Zealand Shares	87.8	32.7	15.7	14.3	15.5	17.1
SuperLife	New Zealand Top 10 ETF	0.9	32.9				
SuperLife	Overseas Shares Hedged	112.2	12.4	5.0	8.1	10.9	12.8
SuperLife	Overseas Shares Unhedged	77.8	(1.8)	5.8	9.1	11.4	11.5
SuperLife	Property	36.7	14.3	13.4	13.3	11.8	13.0
SuperLife	Total World ETF	0.5	(2.1)				
SuperLife	UK Shares/Property	2.4	(6.5)	0.3	3.0	1.9	
SuperLife	US Growth ETF	0.5	(3.2)				
SuperLife	US MidCap ETF	0.4	(0.3)				
SuperLife	US S&P 500 ETF	2.5	(0.6)				
SuperLife	US Small ETF	0.4	(0.0)				
SuperLife	US Value ETF	0.4	2.8				
All Single Sector Aggressive		608.3	13.8	9.0	10.0	11.2	12.4

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AGGRESSIVE FUNDS (SINGLE SECTOR) - CONTINUED

Manager Name	FUM \$ million	Annualised Returns (Net of Tax & Expenses)				
		%				
		1 Year	2 Year	3 Year	4 Year	5 Year
AMP	31.0	11.2	7.4			
Aon	-					
ASB	55.9	9.9	12.6	13.1	12.4	13.4
Fisher Funds	27.8	18.7	12.5	12.3	12.8	12.0
Mercer	25.5	10.6	8.3	11.0	13.2	12.9
SuperLife	438.5	14.4	8.5	9.5	10.9	12.2
All Single Sector Aggressive	608.3	13.8	9.0	10.0	11.2	12.4

TOTAL FUNDS

Manager Name	FUM \$ million	Annualised Returns (Net of Tax & Expenses)				
		%				
		1 Year	2 Year	3 Year	4 Year	5 Year
AMP	2,710.0					
Aon	90.4					
ASB	1,322.1					
Fisher Funds	460.2					
Mercer	474.5					
SuperLife	1,609.1					
Total Funds	6,666.4	8.1	6.0	6.8	7.4	8.0
Cash Benchmark (Net)		1.7	2.0	2.0	2.0	2.0
CPI		0.2	0.3	0.6	0.8	0.8

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