

Investment Survey March 2010 – Dynamic Asset Allocation

Contents

- 1 Investment Results
- 2 Comment on Results
- 3 Commentary – Dynamic Asset Allocation
- 4 Wholesale Sector Funds
- 5 Wholesale Diversified Funds
- 6 Additional Information
- 7 KiwiSaver Diversified Funds

Section 1 – Investment returns

Index returns for the quarter and the year to 31 March 2010 were:

Asset Class	Quarter	Year
NZ Shares	1.5%	27.6%
Australian shares in A\$	1.4%	41.7%
Global Shares:		
• local currency	4.8%	47.1%
• unhedged	6.0%	23.3%
• hedged	5.2%	48.7%
Property		
• NZ Property	-2.6%	16.7%
• Global Property	6.5%	81.4%
NZ Bonds		
• Govt Bonds	2.3%	4.1%
• Corporate A	2.7%	10.0%
• All Swaps	2.6%	5.4%
Global Bonds		
• World Govt Bonds	1.7%	5.0%
• Global Aggregate	2.4%	9.5%
Cash	0.7%	2.9%
NZ\$ against US\$	-2.5%	24.3%
NZ\$ against AUS\$	-4.5%	-5.9%

Section 2 – Comment on results

2.1 Overall results

March was another strong quarter with share and property markets continuing to rise strongly. The only exception was the NZ property market which was down 2.6%. The NZ share market lagged global markets significantly. Over the year, the returns are very good – the stand out being global property which has risen over 80%.

Corporate bonds outperformed sovereign debt over the quarter, with global sovereign being the worst sector. Over the year, the NZ Corporate A index has returned 10.0%; a very good result. Cash continued to provide small but stable returns due to the exceptionally low official cash rate. The return of 2.9% for the year compares to 7.7% in the previous year to March.

The NZ dollar was down against the US and Australian dollars over the quarter, ending at 71.0 US cents and 77.3 Australian cents. However, against the former it has risen sharply over the year, and this has impacted on unhedged global share investments. By comparison, the Australian dollar's strength has seen the NZ dollar slide almost 6% against it over the year.

2.2 Fund manager results

Over the quarter, the top balanced manager was TAM followed closely by Tyndall. For 3, 5 and 10 years, TAM is also top. However for the 12 months Mercer is in the premier position.

For NZ shares and Australian shares, TAM was top for the 12 months. In Australasian shares, the top manager was Devon Funds (previously GS JBW). Core global shares was led by Ibbotson (previously Intech) while the value and growth sectors were led by TAM's Marathon funds.

Looking at property over the year, Mint was top in the NZ listed section, TAM took out NZ direct property and AMPCI led the global sector (with a return of over 100%).

For bonds, the top funds in the year ending March were AXAGI for NZ bonds and the AMPCI multi-manager fund for global bonds. The top cash fund was AMPCI's enhanced yield fund, which includes exposure to credit securities; the top traditional fund was AXAGI.

2.3 KiwiSaver results for the last 12 months

We include results from AMP, ASB, AXA, ING SIL, Tower and (new this time) Westpac in this survey.

In the KiwiSaver aggressive section, the top fund was AXA's Growth Fund, with Tower KiwiPlan's Growth Fund second. Likewise, the balanced section was led by AXA's Balanced Fund, but with the ING SIL Balanced Growth Fund second.

The smaller moderate fund section was led by the ING SIL Balanced Fund, with the ASB Moderate Fund second. Top in the conservative section was Tower KiwiPlan's Conservative Fund and second was AXA's Conservative Fund.

The KiwiSaver funds continue to grow in size; the funds in this survey came in at over \$3 billion in assets at 31 March 2010. The most popular type remain the conservative (and default) funds with an average fund size of just under \$200 million. Other fund styles have an average size of just \$60 million.

Section 3 – Dynamic Asset Allocation

3.1 Introduction

This quarter we examine Dynamic Asset Allocation, or DAA. DAA is gaining in popularity in the wholesale funds management space and in this commentary we try to answer some of the questions trustees may have in regards to it.

3.2 DAA – What is it?

While the term has been on the rise, there does not yet exist a consensus on it. The generally accepted definition is that DAA is a medium term approach to adding value using asset allocation decisions.

All investors should have a set Strategic Asset Allocation (SAA). The SAA is the strategy that best meets the investor's long-term risk and return requirements. The asset allocation will usually be set with rebalancing ranges around each asset sector.

Some investors may employ Tactical Asset Allocation (TAA). This involves making active choices around the relative weighting to asset sectors based on the manager's views on which will outperform over the near-term. The TAA approach has become less popular because of the lack of evidence that it can be consistently successful over time.

DAA attempts to find the sweet spot in between SAA and TAA. DAA will move allocations away from SAA, but over a longer time horizon than TAA. Typically DAA is said to focus on time horizons of one to two (or indeed up to three) years compared to TAA which is concerned with relative returns over several months.

Another key difference is that in the wholesale market, DAA is usually implemented by the fund's trustees (often in conjunction with the investment consultant) while TAA is the responsibility of the investment manager. Sometimes DAA may be contracted out to the investment manager – however this cannot be implemented if a sector-specialist approach is taken towards investment management.

3.3 Why use it?

If one accepts that from time to time markets will be under or over-valued, and that it is possible to identify such opportunities, then DAA is a useful tool to increase return and/or limit risk.

This is predicated on unchanging underlying fundamentals. For instance, one can look back over time and work out what the long-term average of a certain valuation metric is. Then looking at today's position, the deviation from the average can be measured. If this is large, say 2 standard deviations away from the average, a position can be taken, anticipating a reversion to the average.

3.4 What are the risks?

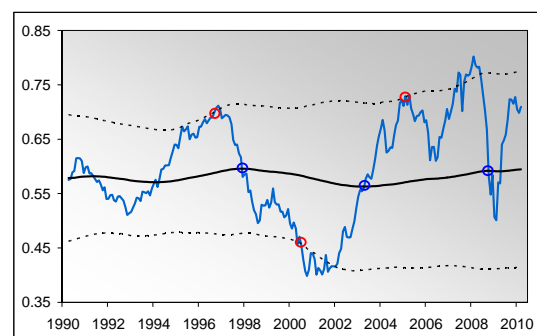
The obvious risk is that the wrong call is made. If there has actually been a shift in the underlying fundamentals and the asset market in question is actually much closer to being fairly priced, the payoff from the DAA decision will be much less, nil or even negative.

A secondary concern is that mean reversion does not occur in the anticipated time frame. This could see the portfolio stuck in an unprofitable position for an extended period. Indeed, John Maynard Keynes famously remarked, "*The market can stay irrational longer than you can stay solvent.*" The worst case scenario would see an investor selling out of a position before the market finally reverted.

The implication of holding a DAA position for an extended period of time is that the portfolio will have deviated from its SAA, perhaps significantly. This in turn means that the risk-return characteristics have been altered and the portfolio is geared away from the long-term goals. If DAA is to be employed correctly, the change in the portfolio's risk profile should be considered when making any decision.

3.5 A simple example

Below we consider the way DAA might work for an investment in global shares that is usually 50% hedged to the NZ dollar (the SAA). The chart below shows the US dollar / NZ dollar exchange rate over the last 20 years (blue line).



The average is given by the black line and calculated on the full history since the NZ dollar was floated in 1985. As such the average varies slightly as more "history" becomes available. The dotted lines indicate 2 standard deviations either side of the average.

The red circles indicate where the actual exchange rate crossed the 2 standard deviation mark and the blue circles indicate when it subsequently returned to the average. This gives the framework for a very simple DAA strategy using the following rules.

- If the exchange rate moves to greater than 2 standard deviations above the average, change to 25% hedging. Return to 50% hedging when the rate falls below the average.
- If the exchange rate moves to less than 2 standard deviations below the average, change to 75% hedging. Return to 50% hedging when the rate rises above the average.

In practice the strategy would have dictated;

- A switch to 25% hedging in September 1996, reverting to 50% in December 1997.
- A switch to 75% hedging in June 2000, reverting to 50% in May 2003.
- A switch to 25% hedging in February 2005, reverting to 50% in October 2008

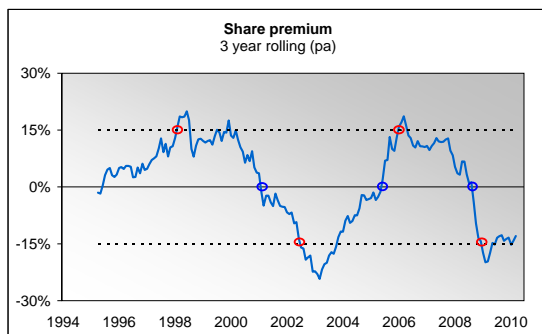
This strategy returned 7.45% pa compared to 7.21% pa from a static 50% hedged strategy. That is, our very simplistic model did return a small premium, however whether this would be sufficient to cover costs is arguable.

This example does illustrate the strength in conviction needed for DAA. The 25% hedging position initiated in 2005 had to be maintained for over three and a half years before the exchange rate fell to average levels. Additionally, the investor would have had to deal with the pain from March 2006 to February 2008 where the exchange rate rose over 30%! Through this period the temptation to cut losses would have been immense, but ultimately detrimental to the long term return.

3.6 Other measures

The example above looked at currency strategy for implementing DAA. More commonly, DAA is used for deciding relative allocation between different asset classes. For example, decide whether to favour shares or bonds over the upcoming time period.

It could be useful to consider a simple model. We consider the implications for a 60% shares, 40% bonds portfolio. In this case we look at the preceding 3 years’ outperformance of shares (approximated by the MSCI 50% hedged) over bonds (approximated by the Barclays Global Aggregate). This “share premium” is graphed below.



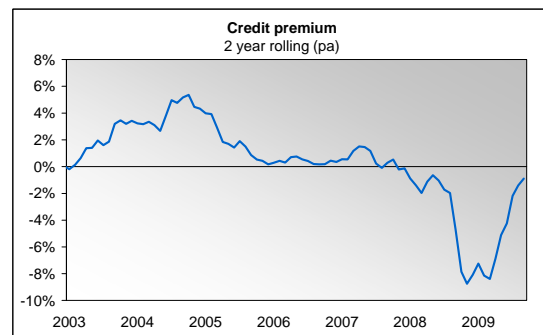
Here our model is to switch out of shares (to 40% shares, 60% bonds) once shares begin to look overvalued. We’ve set the threshold to a 15% pa premium over bonds. Once the premium is zero, we switch to neutral (60% shares, 40% bonds). If

the premium reaches -15%, we switch into shares (80% shares, 20% bonds), anticipating a bounce in the share market. Again we return to neutral when the premium is zero.

In the chart above, adding a tilt is indicated by a red circle and moving to neutral is indicated by a blue circle.

This strategy outperformed the passive strategy by 1.15% pa over 15 years. But this would have required a lot of courage. The trigger points of moving to an overweight position in shares were September 2002 and March 2009; right about the time when the panic surrounding the dot-com and global financial crises was peaking.

In the bonds space, similar analysis can be performed with regards to the relationship between sovereign and credit portfolios. The chart below shows the 2 year rolling credit premium (that is, global bonds credit index return less world government bonds return).



The boom after the dot-com fallout and the bust during the financial crisis are striking features of the chart.

3.7 MJW view

Our position is not to make tactical calls around market timing. However, the metrics discussed above are useful and we maintain watch over these. If it does appear that a particular segment of the market is significantly mispriced we will present options to clients to consider making asset allocation decisions with a medium time horizon.

However, the transitions needed to be made in DAA involve large deviations from SAA. Trustees need to be comfortable with the significant deviation from agreed strategy that is involved.

In all cases we will fully discuss the risks and the uncertainty around timing of reversion. The investor needs to be aware of the possibly long time to be “out of the money”. Rules for setting and removing tilts to asset allocations need to be clear and well understood.

Section 4 – Wholesale Sector Fund

Table 4.1 – NZ and Australian Share Funds

Manager	Size (\$m)	3 Months		1 Year		3 Years		5 Years		10 Years		3 Years		
		% Rank	% pa Rank	% pa Rank	% pa Rank	% pa Rank	% pa Rank	% pa Rank	% pa Rank	Tracking Error % pa	Information Ratio	Rank		
NZ														
DEV	NZ Shares	n.a	1.9	(4)	37.0	(2)	0.5	(2)	10.0	(1)	n.a	6.1	1.0	(3)
MAM	NZ Shares	109.0	2.8	(3)	34.8	(3)	2.0	(1)	n.a	n.a	4.9	1.6	(1)	
TAM	NZ Shares	200.8	3.3	(1)	38.3	(1)	-3.3	(4)	5.5	(2)	9.8	2.6	1.0	(4)
TYN	Core Share	42.7	2.9	(2)	33.5	(4)	-2.8	(3)	4.7	(3)	8.9	2.3	1.3	(2)
Australasian														
AB	High Growth	n.a	2.1	(5)	35.8	(3)	-1.1	(3)	7.4	(2)	n.a	4.1	1.2	(4)
AMPCI	Active	404.7	2.2	(4)	26.5	(9)	-3.4	(6)	6.0	(5)	9.6	2.5	1.0	(5)
AMPCI	Strategic	648.0	3.3	(1)	29.2	(6)	-2.4	(5)	8.3	(1)	n.a	5.5	0.6	(7)
AXAGI		414.0	1.9	(6)	35.1	(4)	-0.7	(2)	7.1	(3)	n.a	3.8	1.4	(3)
BAM		229.7	1.4	(7)	32.7	(5)	0.1	(1)	6.9	(4)	10.5	2.9	2.1	(1)
DEV	Core Equity	n.a	2.3	(2)	37.4	(2)	n.a	n.a	n.a	n.a	n.a	n.a	n.a	
ING	Aust Share	490.3	1.3	(8)	27.3	(8)	-3.9	(7)	5.3	(7)	11.0	3.1	0.7	(6)
MAM	Peak Fund	14.0	2.2	(3)	42.1	(1)	n.a	n.a	n.a	n.a	n.a	n.a	n.a	
Mercer	Trans-Tasman	217.4	1.2	(9)	28.7	(7)	-2.1	(4)	5.9	(6)	n.a	2.4	1.6	(2)
Average			2.0		32.7		-1.9		6.7		10.4	3.5	1.2	
Non core														
BAM	Alpha	141.3	-1.3		38.7		11.7		19.2		17.8	8.5	2.1	
FIS	NZ Growth	n.a	-2.4		36.3		-10.6		6.1		13.1	10.7	-0.4	
DEV	Trans-Tasman	n.a	4.9		41.6		1.1		11.1		n.a	8.2	0.9	
ING	ESF	132.1	1.0		29.8		-3.4		7.6		n.a	7.4	0.3	
MNT	Trans-Tasman	3.1	1.1		35.6		2.3		n.a		n.a	7.1	1.2	
PIE	Growth	7.6	2.5		102.2		n.a		n.a		n.a	n.a	n.a	
TYN	Aggressive	119.0	6.7		38.6		5.7		16.7		n.a	7.5	1.5	
TYN	Small Company	27.5	4.0		59.0		2.1		10.8		n.a	n.a	n.a	
Indexed														
SMS	NZ Top 10	56.9	2.7		21.0		-8.2		-1.0		2.7	6.8	-0.3	
SMS	NZ Top 50	70.0	1.1		30.2		-6.9		3.0		n.a	10.1	-0.1	
SMS	NZ Mid Cap	37.7	-0.9		22.7		-8.9		2.4		7.1	11.4	-0.3	
SMS	Aus Mid Cap	54.8	0.0		46.1		-5.8		7.0		n.a	16.7	0.0	
SMS	Aus Top 20	110.4	6.1		46.6		8.0		15.2		8.1	16.9	0.8	
Australian														
AMPCI	Australian	43.0	6.4	(1)	50.4	(2)	4.4	(1)	13.7	(1)	9.7	13.9	0.7	(1)
ING	Australian	45.2	3.6	(3)	49.4	(3)	n.a		n.a		n.a	n.a	n.a	
TAM	Australian	84.7	6.1	(2)	61.5	(1)	n.a		n.a		n.a	n.a	n.a	
Indexes														
NZSX50 (incl IC's)			1.5		27.6		-5.9		3.0		7.1			
NZSX 50 Portfolio			2.6		31.7		-5.1		4.9		8.6			
ASX200			1.4		41.7		-2.4		8.1		8.9			
Cash + 5% pa			1.9		7.9		11.4		11.9		11.5			

Table 4.2 – Property

Manager	Size (\$m)	3 Months		1 Year		3 Years		5 Years		10 Years		3 Years		
		% Rank	% pa Rank	% pa Rank	% pa Rank	% pa Rank	% pa Rank	% pa Rank	% pa Rank	Tracking Error % pa	Information Ratio	Rank		
NZ Listed														
AB	NZ Listed	30.4	-2.4	(4)	20.8	(4)	-7.9	(1)	5.3	(2)	n.a	1.6	0.4	(1)
AMPCI	NZ Listed	4.6	-0.1	(1)	17.5	(5)	n.a		n.a		n.a	n.a	n.a	
AXAGI	NZ Listed	49.8	-2.3	(3)	21.2	(3)	n.a		n.a		n.a	n.a	n.a	
ING	Prop Securities	197.6	-2.8	(5)	21.5	(2)	-8.3	(2)	5.9	(1)	12.0	2.6	0.1	(2)
MNT	Australasian	28.8	-1.9	(2)	21.7	(1)	n.a		n.a		n.a	n.a	n.a	
Average			-1.9		20.5		-8.1		5.6		12.0	2.1	0.3	
NZ Direct														
AMPCI	AIF P	367.3	-12.6	(2)	-30.2	(2)	-7.8	(2)	3.4	(2)	7.2	12.6	-0.7	(2)
TAM		229.5	2.4	(1)	4.2	(1)	1.6	(1)	10.6	(1)	11.8	8.2	0.1	(1)
Average			-5.1		-13.0		-3.1		7.0		9.5	10.4	-0.3	
Global														
AMPCI	GPSF	257.6	5.8	(2)	101.1	(1)	-13.0	(1)	5.1	(1)	n.a	7.4	0.1	(1)
AXAGI	Global Prop	90.7	5.7	(4)	67.5	(6)	n.a		n.a		n.a	n.a	n.a	
IBB	Int'l Prop	147.0	5.7	(5)	75.0	(3)	-13.7	(2)	n.a		n.a	n.a	n.a	
ING	Ex Australia	230.7	7.3	(1)	83.3	(2)	-15.4	(4)	2.6	(2)	n.a	5.5	-0.2	(3)
RUS	Global RE	n.a	4.6	(6)	72.5	(4)	-14.4	(3)	n.a		n.a	7.3	0.0	(2)
TYN		8.9	5.8	(3)	71.0	(5)	-17.2	(5)	-0.5	(3)	n.a	4.4	-1.1	(4)
Average			5.8		78.4		-14.7		2.4		n.a	6.1	-0.3	
Indexes														
NZSE Property			-2.6		16.7		-8.6		4.0		9.6			
UBS Global Property			6.5		81.4		-14.1		3.2		n.a			

Table 4.3 – Global Share Funds (unhedged)

Manager	3 Months		1 Year		3 Years		5 Years		10 Years		3 Years	
	%	Rank	% pa	Rank	% pa	Rank	% pa	Rank	% pa	Rank	Tracking Error % pa	Information Ratio Rank
Core												
AB	Style Blend	4.7	(13)	24.2	(10)	-10.2	(14)	1.1	(13)	n.a	4.7	-1.2 (13)
AMPCI	FDF Core	5.0	(12)	24.9	(8)	-6.4	(12)	3.2	(11)	n.a	3.7	-0.5 (10)
AXAGI	Global Eq	3.9	(15)	28.0	(3)	-3.1	(5)	5.1	(6)	n.a	5.8	0.3 (5)
BNP	Global Eq	5.8	(7)	24.9	(9)	0.0	(2)	7.0	(2)	1.1 (1)	4.2	1.1 (1)
IBB	Int'l Shares	7.3	(3)	29.2	(1)	-5.3	(9)	3.4	(10)	-3.0 (5)	2.9	-0.2 (8)
ING	Int'l Eq	6.1	(5)	27.9	(4)	-1.9	(3)	5.7	(3)	-4.1 (7)	2.8	1.0 (3)
Jana	Core Global	5.2	(11)	20.3	(14)	-8.4	(13)	n.a	n.a	n.a	4.7	-0.8 (12)
Mercer	Global Shares	5.6	(9)	22.7	(12)	-5.8	(11)	3.6	(9)	n.a	6.7	-0.4 (9)
MLC	NCIT	5.7	(8)	27.1	(7)	-4.4	(8)	4.1	(8)	-2.4 (4)	4.0	0.0 (7)
RUS	ISF	6.5	(4)	23.7	(11)	-5.6	(10)	3.0	(12)	n.a	2.0	-0.5 (11)
RUS	GOF	5.9	(6)	27.4	(6)	-2.4	(4)	5.7	(4)	n.a	n.a	n.a
TAM	International	7.6	(2)	28.7	(2)	-3.2	(6)	5.2	(5)	0.2 (2)	8.7	0.2 (6)
TYN	Capital Int'l	4.6	(14)	17.8	(15)	-3.4	(7)	4.4	(7)	-3.1 (6)	2.8	0.4 (4)
TYN	Multi-manager	5.5	(10)	21.3	(13)	n.a	n.a	n.a	n.a	n.a	n.a	n.a
WEL	Opportunities	7.8	(1)	27.6	(5)	1.2 (1)	7.2 (1)	7.2 (1)	0.2 (3)	0.2 (3)	5.4	1.1 (2)
Average		5.8		25.0		-4.2		4.5		-1.6	4.5	0.0
Value												
AB	Value	4.9	(5)	28.6	(3)	-10.6	(5)	1.4	(5)	2.2 (3)	5.8	-1.0 (5)
DFA	Value	7.6	(2)	37.3	(2)	-7.2	(4)	3.4	(3)	3.0 (2)	7.7	-0.3 (3)
ELE	Value	4.1	(6)	15.1	(6)	n.a	n.a	n.a	n.a	n.a	n.a	n.a
GMO	Equity Trust	5.3	(4)	19.0	(5)	-5.7	(3)	2.9	(4)	0.5 (4)	2.1	-0.5 (4)
TAM	Marathon	10.7	(1)	42.8	(1)	-1.2	(2)	7.4 (1)	4.7 (1)	4.7 (1)	5.0	0.7 (2)
WEL	Value	6.0	(3)	22.9	(4)	-0.4	(1)	6.8	(2)	n.a	3.3	1.3 (1)
Average		6.4		27.6		-5.0		4.4		2.6	4.8	0.0
Growth												
AB	Research	4.4	(4)	18.6	(4)	-10.2	(4)	0.5	(4)	-3.3 (2)	18.7	-0.3 (4)
BNP	Growth	4.9	(3)	26.3	(2)	0.4	(1)	6.8	(2)	n.a	3.4	1.5 (1)
TAM	Marathon	10.8	(1)	43.0	(1)	-0.5	(2)	7.8 (1)	5.0 (1)	5.0 (1)	5.0	0.8 (2)
WEL	Growth	5.4	(2)	19.6	(3)	-5.4	(3)	2.1	(3)	-3.6 (3)	8.5	-0.1 (3)
Average		6.4		26.9		-3.9		4.3		-0.6	8.9	0.5
Indexed												
AMPCI	WiNZ	6.9		21.6		-3.9		3.4		-4.4	1.8	0.4
VAN		5.9		21.8		-5.1		3.1		-3.4	0.5	-1.0
Other												
AMPCI	Extended	6.8		31.7		-2.4		7.2		n.a	14.2	-0.5
AMPCI	S Responsible	6.0		22.1		-3.2		4.9		n.a	3.0	0.5
GMO	Emerging	6.1		45.3		2.8		14.5		n.a	9.5	-0.3
Jana	High Alpha	7.5		32.5		-4.7		n.a		n.a	6.8	0.0
LMI	Emerging	1.3		50.8		4.5		15.4		8.0	4.8	-0.2
TYN	SRI	5.1		22.7		n.a		n.a		n.a	n.a	n.a
Indexes												
MSCI 0% hedged		6.0		23.3		-4.6		3.6		-3.1		
MSCI 100% hedged		5.2		48.7		-4.8		4.9		1.9		
MSCI Emerging 0% hedged		3.2		41.8		5.4		16.0		5.8		

Note:

The results above are on an unhedged basis. In some instances hedging the currency is integral to the management of the fund and the client will not experience the results shown above.

Table 4.4 – Other Funds

Manager	Size (\$m)	Hedging %	3 Months	1 Year	3 Years	5 Years	3 Years	
			%	% pa	% pa	% pa	Volatility	
ELE	Multi-Strategy	13.3	n.a	5.1	27.2	-2.0	n.a	12.9
MAM	Aggressive	78.0	n.a	3.1	26.6	n.a	n.a	n.a
MGH		20.1	0.0	4.7	3.7	-0.5	4.9	15.0
Mercer		n.a	0.0	2.4	15.8	4.9	n.a	13.7
TCO	Commodity	n.a	70.0	-2.3	26.1	-2.9	1.2	23.8
TYN	JPMAAM	13.9	100.0	3.6	18.4	4.8	8.3	7.0
TYN	Options	115.0	n.a	8.6	35.1	14.2	16.2	14.2
WEL	Commodity	n.a	0.0	2.4	9.1	n.a	n.a	n.a
Average				3.4	20.2	3.1	7.7	14.4
Index								
HFR FoF Hedged NZD				1.9	15.1	1.9	6.3	

Table 4.5 – New Zealand Bonds

Manager	Size (\$m)	3 Months			1 Year		3 Years		5 Years		10 Years		3 Years	
		%	Rank	% pa	Rank	% pa	Rank	% pa	Rank	% pa	Rank	Tracking Error	Information Ratio	
AB Fixed Income	408.4	2.6	(2)	8.7	(3)	9.3	(2)	7.8	(2)	n.a		1.6	1.2	(3)
AMPCI AIF F	875.8	2.5	(3)	7.0	(4)	10.3	(1)	8.3	(1)	7.8	(1)	1.8	1.6	(1)
AXAGI	174.4	2.5	(4)	10.3	(1)	7.7	(4)	7.2	(4)	n.a		3.6	0.1	(4)
ING NZ Fixed Plus	558.0	2.9	(1)	9.0	(2)	5.8	(6)	6.7	(6)	7.2	(4)	3.2	-0.5	(6)
TAM	324.8	2.3	(6)	6.1	(6)	8.7	(3)	7.7	(3)	7.3	(3)	1.1	1.2	(2)
TYN	351.2	2.4	(5)	6.4	(5)	6.9	(5)	7.0	(5)	7.4	(2)	2.0	-0.2	(5)
Average		2.5		7.9		8.1		7.4		7.4		2.2	0.6	
Other														
ING Sovereign	219.0	2.4		4.3		8.1		8.2		n.a		0.7	1.0	
ING High Grade	288.6	3.5		12.2		3.4		5.0		n.a		6.1	-0.7	
ING High Yield	50.3	2.5		11.9		8.4		8.5		n.a		3.6	0.3	
TYN Corporate	19.1	2.7		n.a		n.a		n.a		n.a		n.a	n.a	
Indexes														
NZ Govt Stock		2.3		4.1		7.4		6.8		6.8				
NZ All Swaps		2.6		5.4		9.7		n.a		n.a				

Table 4.6 – Global Bonds (hedged)

Manager	Size (\$m)	3 Months			1 Year		3 Years		5 Years		10 Years		3 Years	
		%	Rank	% pa	Rank	% pa	Rank	% pa	Rank	% pa	Rank	Tracking Error	Information Ratio	
AB Global+ (Sim)		3.7	(4)	24.0	(2)	9.0	(3)	8.5	(3)	n.a		5.3	-0.1	(3)
AMPCI AIF Q		4.1	(2)	25.4	(1)	7.9	(7)	7.6	(7)	8.2	(5)	6.3	-0.2	(5)
AMPCI AIF HQ		2.6	(8)	5.1	(9)	n.a		n.a		n.a		n.a	n.a	
AXAGI		3.3	(5)	13.4	(6)	8.7	(4)	8.1	(4)	n.a		3.7	-0.1	(4)
BLK Global Div		3.0	(6)	10.0	(7)	n.a		n.a		n.a		n.a	n.a	
DFA Div Fixed (5yr)		2.0	(9)	7.7	(8)	8.1	(6)	7.7	(6)	n.a		2.9	-0.4	(8)
ING Int'l Fixed Int.		1.7	(10)	5.1	(10)	9.6	(2)	9.0	(2)	8.9	(2)	1.9	0.1	(2)
RUS Global Bond		4.0	(3)	20.2	(4)	9.9	(1)	9.2	(1)	9.4	(1)	5.0	0.2	(1)
TAM PIMCO		4.2	(1)	21.9	(3)	7.9	(8)	7.6	(8)	8.8	(3)	5.2	-0.3	(6)
TYN FFTW		2.9	(7)	13.7	(5)	8.7	(5)	8.0	(5)	8.7	(4)	2.2	-0.3	(7)
Average		3.2		14.6		8.7		8.2		8.8		4.1	-0.1	
A\$ Hedged														
IBB		4.7		16.8		6.5		n.a		n.a		n.a	n.a	
WEL		2.3		11.6		8.9		7.3		n.a		17.5	0.1	
Index														
Barclays Global Agg.		2.4		9.5		9.4		8.5		9.0				
Citigroup WGBI		1.7		5.0		9.2		8.3		8.7				

Table 4.7 – Cash

Manager	Size (\$m)	3 Months			1 Year		3 Years		5 Years		10 Years		3 Years	
		%	Rank	% pa	Rank	% pa	Rank	% pa	Rank	% pa	Rank	Tracking Error	Information Ratio	
AB NZ Cash	459.7	0.9	(6)	4.0	(4)	6.7	(7)	7.0	(7)	n.a		0.3	0.7	(7)
AMPCI AIF Cash	1,022.0	0.9	(4)	4.0	(3)	7.0	(4)	7.3	(4)	6.7	(3)	0.2	3.0	(2)
AMPCI E. Yield	34.4	2.2	(1)	8.9	(1)	7.9	(1)	8.1	(1)	n.a		1.7	0.9	(6)
AXAGI	258.9	1.0	(2)	4.9	(2)	6.6	(8)	7.0	(8)	n.a		0.6	0.3	(8)
ING Cash Plus	1,174.4	0.9	(7)	4.0	(6)	7.1	(3)	7.7	(2)	7.1	(1)	0.3	2.4	(4)
Mercer Money Mkt	296.4	0.9	(5)	4.0	(5)	6.9	(5)	7.2	(5)	n.a		0.2	2.7	(3)
TAM	992.9	0.9	(8)	3.7	(8)	6.8	(6)	7.1	(6)	6.6	(4)	0.1	3.0	(1)
TYN	129.5	1.0	(3)	3.8	(7)	7.3	(2)	7.5	(3)	7.0	(2)	0.4	2.3	(5)
Average		1.1		4.7		7.0		7.4		6.9		0.5	1.9	
Index														
90 Day Bank Bill		0.7		2.9		6.4		6.9		6.5				

Notes:

1. Excess return is defined as gross return less benchmark return, i.e. value added.
2. Tracking error is the standard deviation of value added. The index applied may not in all cases be the benchmark adopted by the manager for the fund.
3. Information Ratio is value added divided by tracking error, i.e. risk adjusted performance.
4. The numbers shown are in some cases gross equivalents of the net returns achieved by the manager. Accordingly, for a gross investor the returns realised may be different from those shown above.
5. Relative out performance may be due to the nature of the fund rather than to superior performance.
6. The index share funds are benchmarked against the standard share index and not against their own index.
7. AB simulated returns were constructed by combining the actual returns with a simulated monthly hedge rate based on the index.

Section 5 – Wholesale Diversified Funds**Table 5.1 – Balanced Funds**

Manager	3 Months		1 Year		Gross Returns				Asset Allocation		Currency Exposure		
	%	Rank	% pa	Rank	3 Years		5 Years		10 Years				
					% pa	Rank	% pa	Rank	% pa	Rank	Growth %	Income %	%
AMPCI	1.9	(7)	16.9	(7)	1.8	(3)	7.1	(4)	5.3	(4)	65.6	34.4	20.0
ASB	3.7	(3)	24.6	(4)	0.7	(6)	n.a		n.a		59.3	40.7	n.a
AXAGI	2.9	(6)	26.7	(2)	1.3	(4)	7.6	(2)	6.5	(2)	69.9	30.1	28.3
ING	3.5	(4)	25.9	(3)	1.3	(5)	6.8	(5)	5.2	(5)	67.3	32.7	19.5
Mercer	3.4	(5)	30.7	(1)	0.6	(7)	6.2	(6)	n.a		64.7	35.3	16.4
TAM	4.5	(1)	23.6	(6)	2.8	(1)	7.8	(1)	7.0	(1)	56.1	43.9	21.0
TYN	4.3	(2)	23.8	(5)	2.4	(2)	7.3	(3)	5.5	(3)	56.5	43.5	13.9
Average	3.4		24.6		1.6		7.1		5.9		62.8	37.2	19.8
SRI Funds													
AMPCI	3.2		n.a		n.a		n.a		n.a		65.8	34.2	20.0
TYN	3.4		19.7		n.a		n.a		n.a		60.4	39.6	29.8

Table 5.2 – Conservative Funds

Manager	3 Months		1 Year		Gross Returns				Asset Allocation			
	%	Rank	% pa	Rank	3 Years		5 Years		10 Years			
					% pa	Rank	% pa	Rank	% pa	Rank	Growth %	Income %
AMPCI	1.9	(4)	8.9	(4)	6.5	(1)	8.1	(1)	6.6	(1)	30.4	69.6
ASB	3.0	(2)	18.4	(2)	3.1	(3)	n.a		n.a		39.5	60.5
AXAGI	2.8	(3)	20.9	(1)	2.6	(4)	7.0	(2)	5.4	(2)	49.8	50.3
TAM	3.6	(1)	17.3	(3)	5.2	(2)	n.a		n.a		28.5	71.5
Average	2.8		16.4		4.3		7.5		6.0		37.0	63.0

Table 5.2 – Growth Funds

Manager	3 Months		1 Year		Gross Returns				Asset Allocation			
	%	Rank	% pa	Rank	3 Years		5 Years		10 Years			
					% pa	Rank	% pa	Rank	% pa	Rank	Growth %	Income %
AMPCI	1.9	(4)	24.3	(4)	-2.7	(4)	5.9	(2)	3.0	(2)	94.0	6.0
ASB	4.2	(2)	30.6	(3)	-1.7	(3)	n.a		n.a		78.6	21.4
AXAGI	2.8	(3)	32.7	(2)	-0.1	(1)	7.4	(1)	4.2	(1)	84.9	15.1
TAM	5.5	(1)	33.2	(1)	-0.2	(2)	n.a		n.a		75.9	24.1
Average	3.6		30.2		-1.2		6.6		3.6		83.3	16.7

Section 6 – Additional information

(Funds under management relate to the total organisation)

	Acronym	FUM \$m		Acronym	FUM \$m
AllianceBernstein	AB	n.a	Legg Mason, Inc.	LMI	n.a
ASB Group Investments	ASB	n.a	Milford Asset Management	MAM	578.0
AXA Global Investors	AXAGI	3,934.0	MGH Asset Management Ltd	MGH	n.a
AMP Capital Investors	AMPCI	n.a	MLC	MLC	n.a
Brook Asset Management	BAM	1,090.4	Mint Asset Management	MNT	n.a
BlackRock Investment Management	BLK	n.a	Mercer	Mercer	2,095.7
BNP Paribas Inv Management	BNP	n.a	Pie Funds	PIE	7.6
Devon Funds Management Ltd	DEV	n.a	Russell Investment Group	RUS	n.a
Dimensional Fund Advisors	DFA	n.a	SmartShares	SMS	329.8
Elevation Capital	ELE	n.a	Tower Asset Management	TAM	3,701.4
Fisher Funds Management	FIS	n.a	Tower Commodities	TCO	n.a
GMO	GMO	n.a	Tyndall Investment Management	TYN	3,597.2
Ibbotson Associates	IBB	n.a	Vanguard Investments Australia	VAN	n.a
ING	ING	6,992.5	Wellington Management Company	WEL	n.a
Jana	Jana	n.a			

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- Determine long-term investment strategies.
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Section 7 – KiwiSaver Diversified Funds

7.1 – Introduction

Since its launch in July 2007, KiwiSaver schemes have grown such that they now hold assets of over \$4 billion. Looking to the future the performance achieved by these KiwiSaver funds will be the benchmark against which other funds performance is judged. Accordingly we now include the results for a selection of the main KiwiSaver providers. There is just over 2 years performance at this moment and we will continue to show the results for the Wholesale funds in Section 5 for the immediate future. Returns shown are gross of tax, net of fees.

7.2 – KiwiSaver Diversified Funds Investment Results

7.2.1 – Aggressive Funds

Provider	Fund	Size (\$m)	Growth Assets BM %	Return							
				3 months		1 Year		2 Years		Inception	
				%	Rank	% pa	Rank	% pa	Rank	% pa	Rank
AMP	Aggressive	66.0	90.0	1.2	(7)	20.9	(6)	-3.3	(7)	-7.2	(7)
AMP	Growth	70.0	77.0	1.2	(6)	18.1	(7)	-1.7	(6)	-5.3	(6)
ASB	Growth	103.0	80.0	4.1	(2)	30.1	(4)	0.1	(5)	-4.4	(4)
AXA	Growth	37.0	85.0	2.9	(4)	35.0	(1)	1.1	(3)	-4.7	(5)
SIL	Growth	64.2	80.0	3.8	(3)	30.9	(3)	2.7	(1)	-2.2	(1)
Tower	Growth	25.0	77.5	4.3	(1)	31.0	(2)	0.2	(4)	-3.6	(3)
Westpac	Growth	67.3	77.5	2.5	(5)	21.3	(5)	2.3	(2)	-2.5	(2)
Average			81.0	2.9		26.7		0.2		-4.3	

7.2.2 – Balanced Funds

Provider	Fund	Size (\$m)	Growth Assets BM %	Return							
				3 mths		1 Year		2 Years		Inception	
				%	Rank	% pa	Rank	% pa	Rank	% pa	Rank
AMP	ING Balanced	17.1	62.0	2.3	(8)	21.9	(5)	3.1	(5)	0.1	(4)
AMP	Balanced	75.9	60.0	1.3	(10)	14.6	(9)	2.1	(8)	0.9	(2)
AMP	Tower Bal	4.0	55.0	3.3	(4)	18.2	(8)	3.1	(4)	0.9	(3)
AMP	Tyndall Bal	3.2	55.0	3.0	(5)	20.0	(6)	2.0	(9)	-1.8	(10)
AMP	Mod Balanced	70.2	51.0	1.3	(9)	12.8	(10)	2.6	(7)	-0.3	(6)
ASB	Balanced	103.1	60.0	3.5	(2)	24.2	(3)	2.0	(10)	-1.5	(9)
AXA	Balanced	47.9	60.0	2.9	(6)	27.6	(1)	3.4	(3)	-1.1	(8)
SIL	Bal Growth	84.3	65.0	3.5	(3)	26.2	(2)	3.9	(1)	0.0	(5)
Tower	Balanced	80.1	55.0	3.8	(1)	22.1	(4)	2.8	(6)	1.5	(1)
Westpac	Balanced	104.1	63.0	2.7	(7)	18.4	(7)	3.6	(2)	-0.5	(7)
Average			58.6	2.7		20.6		2.9		-0.2	

7.2.3 – Moderate Funds

Provider	Fund	Size (\$m)	Growth Assets BM %	Return							
				3 mths		1 Year		2 Years		Inception	
				%	Rank	% pa	Rank	% pa	Rank	% pa	Rank
AMP	AMP Moderate	47.3	38.0	1.4	(4)	10.2	(4)	4.1	(3)	1.8	(3)
ASB	Moderate	120.9	40.0	2.9	(2)	17.9	(2)	3.8	(4)	1.5	(4)
SIL	Balanced	86.7	50.0	3.1	(1)	21.2	(1)	4.9	(2)	2.3	(2)
SIL	Cons Bal	33.9	35.0	2.7	(3)	16.6	(3)	5.7	(1)	3.9	(1)
Average			40.8	2.5		16.5		4.6		2.4	

7.2.4 – Conservative Funds

Provider	Fund	Size (\$m)	Growth Assets BM %	Return							
				3 mths		1 Year		2 Years		Inception	
				%	Rank	% pa	Rank	% pa	Rank	% pa	Rank
AMP	AMP Cons	16.4	25.0	1.5	(8)	7.8	(8)	7.0	(1)	5.0	(3)
AMP	AMP Default	270.2	20.0	1.0	(9)	7.5	(9)	4.6	(8)	3.7	(7)
ASB	Conservative	559.5	20.0	2.1	(5)	9.9	(7)	5.6	(5)	4.4	(5)
AXA	Conservative	4.5	25.0	2.5	(2)	15.8	(2)	5.9	(3)	5.9	(2)
AXA	Income Plus	315.1	20.0	2.2	(4)	14.1	(3)	5.7	(4)	3.7	(8)
SIL	Conservative	101.1	20.0	2.3	(3)	11.7	(4)	6.6	(2)	5.9	(1)
Tower	Conservative	10.2	30.0	3.0	(1)	16.3	(1)	4.6	(9)	3.7	(6)
Tower	Default	269.5	20.0	1.7	(7)	10.4	(6)	4.7	(6)	4.5	(4)
Westpac	Conservative	229.4	25.0	1.9	(6)	10.6	(5)	4.7	(7)	2.7	(9)
Average			22.8	2.0		11.6		5.5		4.4	

7.3 – KiwiSaver Diversified Funds Asset Allocation

7.3.1 – Aggressive Funds

Provider	Fund	NZ Shares	Global Shares	NZ Property	Global Property	Alternative Assets	Growth Assets	NZ Bonds	Global Bonds	Cash	Income Assets
AMP	Aggressive	19.7	60.3	14.0			94.0	2.4		3.6	6.0
AMP	Growth	17.0	52.1	12.3			81.3	7.9	3.3	7.5	18.7
ASB	Growth	24.5	44.5		9.9		78.9	5.9	11.3	3.9	21.2
AXA	Growth	23.6	56.5	2.0	5.5	2.5	90.1	1.5	2.5	5.9	9.9
SIL	Growth	26.0	44.8	6.7	5.9		83.4	6.0	8.7	1.9	16.6
Tower	Growth	19.1	53.0	3.8			75.9	5.2	9.4	9.5	24.1
Westpac	Growth	25.1	37.5	9.9		0.4	72.8	11.0	6.5	9.7	27.2
Average		22.1	49.8	6.9	3.0	0.4	82.3	5.7	6.0	6.0	17.7

7.3.2 – Balanced Funds

Provider	Fund	NZ Shares	Global Shares	NZ Property	Global Property	Alternative Assets	Growth Assets	NZ Bonds	Global Bonds	Cash	Income Assets
AMP	ING Balanced	18.5	35.9	10.7		2.3	67.4	11.5	17.4	3.8	32.7
AMP	Balanced	14.9	40.2	10.5			65.6	19.7	12.6	2.1	34.4
AMP	Tower Bal	13.1	33.0	10.0			56.1	9.4	19.5	15.0	43.9
AMP	Tyndall Bal	9.2	37.4			19.8	66.4	16.3	17.4		33.6
AMP	Mod Balanced	11.5	35.5	8.8			55.8	18.8	10.0	15.3	44.2
ASB	Balanced	19.7	29.8		9.9		59.4	15.8	18.0	6.8	40.6
AXA	Balanced	16.1	42.2	2.0	2.5	2.5	65.2	4.0	24.8	6.0	34.8
SIL	Bal Growth	21.0	36.8	5.6	4.9		68.3	11.0	16.1	4.5	31.7
Tower	Balanced	13.0	33.0	10.0			56.0	9.4	19.5	15.0	43.9
Westpac	Balanced	20.0	32.9	5.0		0.4	58.3	20.0	12.0	9.7	41.7
Average		15.7	35.7	6.3	1.7	2.5	61.9	13.6	16.7	7.8	38.2

7.3.3 – Moderate Funds

Provider	Fund	NZ Shares	Global Shares	NZ Property	Global Property	Alternative Assets	Growth Assets	NZ Bonds	Global Bonds	Cash	Income Assets
AMP	AMP Moderate	8.8	27.3	7.0			43.1	24.3	13.3	19.2	56.9
ASB	Moderate	13.8	16.9		8.9		39.6	20.7	25.6	14.1	60.4
SIL	Balanced	16.0	28.8	4.5	4.0		53.2	14.0	24.1	8.6	46.8
SIL	Cons Bal	11.0	20.8	3.4	3.0		38.1	18.0	30.1	13.8	61.9
Average		12.4	23.4	3.7	4.0		43.5	19.3	23.3	13.9	56.5

7.3.4 – Conservative Funds

Provider	Fund	NZ Shares	Global Shares	NZ Property	Global Property	Alternative Assets	Growth Assets	NZ Bonds	Global Bonds	Cash	Income Assets
AMP	AMP Cons	6.0	19.0	5.3			30.4	29.8	16.7	23.1	69.7
AMP	AMP Default	5.1	13.7	3.6			22.3	6.7	4.3	66.7	77.7
ASB	Conservative	8.8	10.9				19.7	24.6	28.4	27.2	80.2
AXA	Conservative	6.1	14.1		1.8		21.9	14.0	30.0	34.2	78.1
AXA	Income Plus	6.1	18.1	1.0	2.0	2.0	29.2	16.9	31.9	21.9	70.8
SIL	Conservative	7.0	11.9	1.7	1.5		22.1	21.0	37.1	19.9	77.9
Tower	Conservative	5.4	18.5	4.6			28.5	15.5	28.4	27.7	71.5
Tower	Default	3.5	12.4	4.7			20.7	8.2	13.2	57.8	79.3
Westpac	Conservative	9.9	10.1	4.9		0.4	25.3	29.9	14.8	30.0	74.7
Average		6.4	14.3	2.9	0.6	0.3	24.5	18.5	22.8	34.3	75.5

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