

Investment Survey September 2010 – Private Equity

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Section 1 – Investment returns

Index returns for the quarter and the year to 30 September 2010 were:

Asset Class	Quarter	Year
NZ Shares	7.3%	1.6%
Australian shares in A\$	8.0%	0.6%
Global Shares:		
• local currency	9.4%	6.7%
• unhedged	6.4%	5.0%
• hedged	9.5%	7.9%
Property		
• NZ Property	7.8%	1.8%
• Global Property	13.3%	20.5%
NZ Bonds		
• Govt Bonds	2.5%	9.1%
• Corporate A	2.3%	9.7%
• All Swaps	3.3%	10.5%
Global Bonds		
• World Govt Bonds	2.9%	8.4%
• Global Aggregate	3.0%	9.6%
Cash	0.8%	2.9%
NZ\$ against US\$	7.0%	1.7%
NZ\$ against A\$	-6.7%	-7.3%

Section 2 – Comment on results

2.1 Overall results

The September quarter saw share markets rally strongly around the globe. In local currency terms the MSCI World Index was up 9.4% for the quarter. The developed world was led by Hong Kong, up over 20% in the quarter, and several European markets. The USA and the UK also had very good results for the month (the S&P 500 was up 10.7% and the FTSE was up 12.9%).

New Zealand continued to be less volatile, rising 7.3% in the quarter, and the Australian market was up 8.0% as measured by the S&P/ASX 200. The BRIC economies (Brazil, Russia, India and China) that drive the emerging markets shared in the gains, rising between 10% and 15% over the quarter.

However not all news was positive, with Ireland in particular seeing its share market fall over 13% in the quarter. And although Greece had a respectable result for the quarter, their market is still down almost 50% for the 12 months to September.

Results in the bond markets were good with the Barclays Global Aggregate Index up 3.0% for the quarter, just edging out the Citigroup World Government Bond Index which returned 2.9%. The picture was reversed locally where the NZ Government Stock index was up 2.5%, some 0.2% ahead of the NZX Corporate A Grade Index.

The quarter also saw large movements in currency markets. The NZ dollar gained 7.0% against the US dollar but slipped against the Australian dollar (down 6.7%) and Euro (down 4.0%). The weakness in the US dollar has seen it almost reach parity with the strong Australian dollar over recent weeks.

2.2 Fund manager results

Amongst NZ and Australian shares funds over the quarter, TAM were top in the NZ-only section while Devon were top in the Australasian section. In the non-core section both Pie Funds and Tyndall's Small Companies Fund had very strong results for the quarter. The top Australian fund was AMPCI.

In property, BTFM were top for the quarter in the NZ listed property space and TAM outperformed AMPCI in the direct property sub-sector. The best result for global property was AMPCI – also the highest return for any property fund over the quarter.

In global shares the outlier is the TAM Marathon (and Alliance Capital) fund. This fund is 70% Marathon (who were top in the value sub-sector over the quarter). Second over the quarter in the core section was Wellington, who also had the best performing growth fund over the quarter.

The top performing NZ bond fund over the quarter was Tyndall, although the results were not very dispersed in this sector. In global bonds, TAM's PIMCO fund had the top result for the quarter. The top cash fund for the quarter was the AMPCI enhanced yield fund.

The top balanced fund over the quarter was ASB. Over longer periods the top fund is TAM.

2.3 KiwiSaver results

We now have results for 3 years for KiwiSaver funds and so examine these results below. As might be expected given the inopportune start date, the results are better for more conservative funds.

The best result for aggressive funds went to the (ING) SIL Fund with -2.9% pa. This compares to a median result of -4.1% pa. The top balanced fund was Tower with a return of 1.7% pa compared to median of 0.1% pa. In the moderate funds category, the best fund was the (ING) SIL Conservative Balanced Fund with a return of 3.3% pa. The median was 2.3% pa. Finally, amongst conservative funds, the best result was the AMP Conservative Fund with a return of 5.3% pa compared to a median of 4.5% pa.

Section 3 – Private Equity

3.1 Introduction

Private Equity is an asset class consisting of equity securities in companies that are not publicly traded on a stock exchange.

In this commentary we discuss the current private equity landscape in the wake of the global financial crisis and also touch on several issues that concern investment into private equity.

3.2 Investing in Private Equity

Private equity, while akin to listed shares, has to be considered as a different asset class. The question has to be asked as to why to allocate an investment to this sub-sector.

In relation to the NZ private equity market:

- The market is 5 to 7 times the size of the listed NZX market. There are 3,500 companies with revenue greater than \$10 million pa and 850 with revenue greater than \$20 million pa.
- The market is inefficient by definition (asymmetric information) and the opportunity exists to unlock this and realise value for investors.
- There is potentially higher value than listed equities. The areas of additional value arise from the ability to obtain additional information from undertaking due diligence before any investment is undertaken, board level influence, better alignment of interests with management, ability to buy into a business on a basis which allows for both favourable and unfavourable outcomes.

While the NZ Superannuation Fund has different investment objectives and time horizons to private superannuation schemes, it is informative to consider its benchmark asset allocation to private equity; currently 5%.

Investment in private equity is usually indirect. That is, investors usually invest into a limited partnership which then makes the private equity investment on behalf of the investors. The manager will call for each capital drawdown as investments are made, or to cover specific costs or expenses.

With a private equity fund, conventional wisdom is to recognise that the allocation is not fully invested. A strategy may be to over-commit to private equity. For example, a commitment of 5% may be made, intending exposure to be around the 3.5% level.

Returns are only realised upon payment of dividends or sale of a company. The initial term of investment is usually between 7 and 10 years and can be extended if investors agree. Dividends during this period are expected to be minimal.

Fee levels have been high historically and there is some pressure to reduce these in the new environment.

3.3 Modelling

Modelling private equity as an asset class poses several issues. The illiquidity premium would suggest that the overall return should be higher than that for comparable listed equity investments. However, the dividend stream is expected to be much lower.

In addition, traditional definitions of risk (volatility) fall down because of the infrequent valuation cycle. And some account of the illiquid nature and fixed term of the investment needs to be made.

3.4 Current Landscape

Like most asset classes, private equity faced a difficult period through 2008-09. In some instances liquidity constraints led to forced selling as private equity exposures overshot their asset allocations.

Some portfolios were constructed in the boom period of 2005-07 at aggressive pricing and included leverage to gear up the investment. Consequently they have been facing significant challenges to avoid defaulting on interest payments in the tough operating environment caused by the global recession. Given the falls in stock market valuations through 2008 some portfolios faced significant mark downs as private equity managers were forced to adopt mark to market valuation prices. As a result many managers have been focussing their time and resources on maintaining value within their existing portfolios rather than actively pursuing new deals.

Even so there are reasons for investors to be encouraged when considering new commitments to the asset class and it is possible to identify niche areas of private equity that are less reliant on leverage to complete transactions and generate returns. Such strategies are relatively well positioned to take advantage of the lower pricing and increased inefficiency in global capital markets. Managers that can add genuine operational and strategic value to their portfolio companies and have few problems in existing portfolios could thrive in the next cycle.

Our alliance partner, Towers Watson has recently completed some analysis on this sector. They concluded;

“While target firms exist across the size and geographical spectrum we are seeing increasing opportunities in the small to mid market buyout space and in emerging markets. There are also niche opportunities that we find attractive from a thematic perspective such as distressed for control and turnaround managers, which appear to have an increasing supply of opportunities given the economic situation.”

History suggests that periods of economic contraction are attractive times to invest in private equity. Turnaround managers, small/mid market buyouts and emerging markets can all benefit from a depressed pricing environment and are less reliant on leverage to complete transactions.

3.5 Venture Capital

Venture capital is providing seed capital to start-up companies. Recently such funds have experienced poor performance because:

- there was too much capital inflow. Excess inflows into venture capital happened during the 1990s and early 2000s. The build up of capital was both massive and long lasting due to the typical 10 year natural life of limited partnerships. This was well in excess of the estimated capacity of the market.
- funds which were too large to be able to generate venture-like returns.
- lack of exits and longer hold periods, meaning that returns are not realised.

Ironically, while the venture capital industry is fundamentally based on profiting from new developments and rapid change, the industry does not seem to have evolved much in the past 10 years. Comments on the marketplace include:

- an expectation that China and India will become more prominent in this space.
- the industry is now more rationalised as a result of the GFC.
- the trend towards investing internationally is increasing.
- investors should assume average hold periods of around seven years.

3.6 Secondary Funds

Secondary funds practise the buying and selling of pre-existing investor commitments to private equity. For instance, for investors looking to exit before the end of the investment term.

Investors in secondary funds can expect similar benefits to investors in traditional private equity funds including returns that are potentially superior relative to listed markets. In addition secondary funds offer the potential to acquire high quality assets at discounts to net asset value. Return is likely to be realised more quickly also and greater diversification can be provided.

However, secondary managers can charge relatively high fees.

3.7 Australia

Some observations on the Australian market are:

- Private equity funds represent around 0.58% of GDP compared to 1.80% in the US. This is about US\$6 billion and US\$260 billion, respectively.
- 90% of all private equity deals between 2004 and 2008 were valued at under \$300m each.
- Many superannuation funds have exceeded their domestic private equity target asset allocations, and now often look to invest in offshore private equity.
- The industry is consolidating as many funds were unable to raise capital in 2009.

3.8 New Zealand

The 2009 NZ Private Equity and Venture Capital Monitor recorded new private equity investment in 2008 and 2009 of just under \$180 million pa. This compares to \$1.2 billion in each of 2006 and 2007.

The global financial crisis saw Australian pension funds reduce offshore investment which led to an absence of recent large deals in the NZ economy. With over 70% of New Zealand's largest 200 companies being unlisted, Australian interest may again pick up in the coming years.

3.9 Who should invest in the funds?

Private equity is attractive to investors who have less stringent liquidity requirements and/or do not need regular income.

As such, investors with a long time horizon on their cash calls are best suited to investing in this asset sector. Alternatively, entities that have known and steady cash needs which are already met may also consider this sector.

A final point is that diversification within this sector is desirable. Investors should be looking to invest with several private equity managers or vehicles in order to stagger redemptions and diversify risk. This means that a reasonable allocation may be needed to be made to this sector in order to meet minimum investment criteria.

Section 4 – Wholesale Sector Funds

Table 4.1 – NZ and Australian Share Funds

Manager	Size (\$m)	3 months % Rank	1 year % Rank	3 years % pa Rank	5 years % pa Rank	10 years % pa Rank	3 years		
							Tr Error	Info Ratio	Rank
NZ									
BTFM	Dividend Share	30.9	6.8 (5)	5.6 (1)	n.a	n.a	n.a	n.a	n.a
DEV	NZ Shares	0.2	7.2 (3)	3.8 (4)	-0.5 (1)	6.8 (1)	n.a	5.7	1.3 (2)
MAM	NZ Shares	104.0	7.0 (4)	5.0 (2)	-0.6 (2)	5.0 (2)	n.a	4.2	1.8 (1)
TAM	NZ Shares	195.0	7.8 (1)	5.0 (3)	-5.3 (3)	2.3 (3)	9.2 (1)	2.5	1.1 (3)
TYN	Core Share	44.1	7.5 (2)	2.5 (5)	-5.6 (4)	1.3 (4)	8.5 (2)	2.4	1.0 (4)
Australasian									
AB	Hi Growth	n.a	6.9 (7)	4.4 (3)	-3.7 (3)	4.1 (3)	n.a	3.6	1.2 (2)
AMPCI	Active	277.4	8.2 (5)	2.6 (6)	-5.5 (7)	3.1 (6)	9.2 (3)	2.6	1.0 (5)
AMPCI	Strategic	496.6	8.6 (4)	3.9 (4)	-4.3 (5)	5.3 (2)	n.a	5.5	0.7 (7)
AXAGI	Multi-manager	435.7	8.7 (3)	3.2 (5)	-4.0 (4)	3.5 (4)	n.a	4.0	1.0 (4)
BAM	Australasian Equities	63.3	5.9 (8)	0.1 (8)	-4.6 (6)	3.1 (5)	10.5 (1)	3.0	1.1 (3)
BTFM	NZ Share Plus	1.2	5.9 (9)	-1.0 (9)	-5.5 (8)	1.1 (8)	8.4 (4)	3.1	0.8 (6)
DEV	Trans-Tasman	49.2	9.4 (1)	4.7 (2)	-2.8 (2)	6.5 (1)	n.a	8.5	0.6 (8)
HAM	Australasian Eq	150.2	8.0 (6)	n.a	n.a	n.a	n.a	n.a	n.a
ING	Aust Share	514.8	5.4 (10)	1.5 (7)	-6.5 (9)	1.6 (7)	10.1 (2)	3.0	0.5 (9)
MAM	Peak Fund	21.0	9.4 (2)	7.8 (1)	8.3 (1)	n.a	n.a	6.4	2.6 (1)
Median			8.1	3.2	-4.3	3.3	9.7	3.6	1.0
Non core									
BAM	Alpha	54.0	6.2	-3.3	6.9	14.7	17.7	8.9	1.7
BAM	Tasman Wholesale	51.0	6.5	-0.6	1.5	8.2	13.5	7.1	1.4
BAM	Mid Cap	32.4	10.3	8.8	0.5	n.a	n.a	8.9	1.0
BTFM	Focus Share	35.7	6.5	-1.9	n.a	n.a	n.a	n.a	n.a
DEV	Alpha	22.5	4.7	n.a	n.a	n.a	n.a	n.a	n.a
FIS	NZ Growth	n.a	6.3	3.9	-9.9	4.8	11.1	10.2	-0.2
ING	ESF	119.1	3.6	1.5	-5.4	3.1	n.a	6.7	0.4
MNT	Trans-Tasman	3.2	11.0	8.9	-0.1	n.a	n.a	7.1	1.1
PIE	Australasian Growth	8.5	18.2	20.5	n.a	n.a	n.a	n.a	n.a
TYN	Aggressive	123.1	5.7	6.1	2.4	13.4	n.a	7.3	1.4
TYN	Small Companies	20.6	15.8	15.4	1.2	8.6	n.a	13.6	0.7
Indexed									
SMS	NZ Top 10	54.4	6.3	1.4	-10.1	-3.7	3.3	6.5	-0.3
SMS	NZ Top 50	78.7	7.7	5.1	-7.0	1.1	n.a	10.3	0.1
SMS	NZ Mid Cap	37.6	10.6	2.4	-10.3	0.3	5.9	12.0	-0.2
SMS	Aus Mid Cap	54.3	21.8	4.2	-9.1	2.8	n.a	17.6	-0.1
SMS	Aus Top 20	103.4	14.4	8.0	1.2	10.8	6.7	16.9	0.6
Australian									
AMPCI	Australian	36.4	14.9 (1)	8.0 (1)	-1.4 (1)	9.2 (1)	8.0 (1)	13.9	0.4 (1)
ING	Australian	76.1	14.0 (2)	5.2 (3)	n.a	n.a	n.a	n.a	n.a
TAM	Australian	65.7	13.4 (3)	6.8 (2)	n.a	n.a	n.a	n.a	n.a
Indexes									
	NZX 50 incl IC's		7.3	1.7	-8.1	0.0	6.9		
	NZX 50 Portfolio		8.2	4.1	-6.7	1.9	8.3		
	ASX200		8.0	0.6	-7.2	4.2	7.7		
	90 day BB + 5% pa		2.1	8.1	10.9	11.9	11.7		

Table 4.2 – Property Funds

Manager	Size (\$m)	3 months % Rank	1 year % Rank	3 years % pa Rank	5 years % pa Rank	10 years % pa Rank	3 years		
							Tr Error	Info Ratio	Rank
NZ Listed									
AB	NZ Listed	31.2	7.8 (5)	2.5 (3)	-4.7 (1)	3.6 (3)	n.a	1.6	0.2 (2)
AMPCI	NZ Listed	7.2	6.0 (7)	2.5 (4)	n.a	n.a	n.a	n.a	n.a
AXAGI	Australasian	39.8	7.1 (6)	2.1 (6)	n.a	n.a	n.a	n.a	n.a
BTFM	NZ Listed	108.0	9.5 (1)	6.1 (1)	-5.9 (3)	3.8 (2)	10.0 (2)	2.6	1.5 (1)
ING	Prop Securities	174.9	8.6 (4)	3.5 (2)	-5.2 (2)	4.0 (1)	10.7 (1)	2.5	-0.1 (3)
MNT	Australasian	n.a	8.7 (3)	2.3 (5)	n.a	n.a	n.a	n.a	n.a
TYN	Property Securities	7.2	8.8 (2)	n.a	n.a	n.a	n.a	n.a	n.a
Median			8.6	2.5	-5.2	3.8	10.4	2.5	0.2
NZ Direct									
AMPCI	AIF P	252.8	-1.5 (2)	-15.2 (2)	-11.7 (2)	1.6 (2)	6.7 (2)	12.5	-0.6 (2)
TAM		254.1	1.6 (1)	8.7 (1)	1.0 (1)	9.6 (1)	11.9 (1)	7.1	0.7 (1)
Median			0.0	-3.3	-5.4	5.6	9.3	9.8	0.0
Global									
AMPCI	GPSF	181.6	15.3 (1)	20.0 (3)	-9.3 (2)	3.2 (1)	n.a	6.9	0.1 (3)
AXAGI	Global Prop	96.4	13.2 (3)	20.3 (2)	-8.2 (1)	n.a	n.a	13.1	0.1 (1)
IBB	Int'l Prop	124.2	12.8 (5)	19.8 (5)	-9.4 (3)	n.a	n.a	3.4	0.1 (2)
ING	Ex Australia	171.0	13.1 (4)	23.7 (1)	-10.5 (4)	0.4 (2)	n.a	5.3	-0.1 (4)
RUS	Global RE	n.a	12.7 (6)	15.6 (6)	-11.7 (5)	n.a	n.a	9.2	-0.2 (5)
TYN		6.0	13.4 (2)	20.0 (4)	-14.0 (6)	-2.2 (3)	n.a	4.5	-0.9 (6)
Median			13.2	20.0	-9.9	0.4	n.a	6.1	0.0
Indexes									
	NZX Property		7.8	1.8	-5.1	2.7	8.5		
	UBS Global Property		13.3	20.5	-9.7	1.2	n.a		

Table 4.3 – Global Share Funds (unhedged)

Manager		3 months % Rank	1 year % Rank	3 years % pa Rank	5 years % pa Rank	10 years % pa Rank	3 years		
							Tr Error	Info Ratio	Rank
Core									
AB	Style Blend	6.5 (7)	2.5 (15)	-13.5 (14)	-3.2 (14)	n.a	4.6	-1.3	(14)
AMPCI	FDI Core Int'l Share	7.5 (4)	5.9 (10)	-9.0 (12)	-0.3 (11)	n.a	3.6	-0.4	(12)
AXAGI	Multi-manager	6.1 (14)	4.8 (13)	-7.4 (10)	1.7 (7)	n.a	5.5	0.0	(10)
BNP	Global Eq	6.4 (8)	10.4 (3)	-1.3 (2)	4.9 (2)	-0.4 (2)	4.1	1.5	(1)
IBB	Int'l Shares	7.6 (3)	9.4 (5)	-6.7 (8)	0.6 (10)	-4.4 (5)	2.9	0.3	(8)
ING	Int'l Eq	6.2 (12)	8.8 (7)	-3.7 (4)	3.2 (4)	-5.2 (7)	2.8	1.3	(2)
JANA	Core Global	6.4 (10)	4.2 (14)	-11.4 (13)	-1.7 (13)	n.a	4.5	-0.9	(13)
MLC	NCIT	6.9 (5)	8.8 (6)	-6.8 (9)	1.1 (9)	-3.6 (4)	3.9	0.2	(9)
RUS	ISF	6.2 (11)	5.0 (11)	-8.3 (11)	-0.5 (12)	n.a	3.5	-0.2	(11)
RUS	GOF	6.8 (6)	8.4 (8)	-4.5 (5)	2.6 (5)	n.a	2.8	1.1	(4)
TAM	International	5.7 (15)	8.3 (9)	-5.5 (6)	2.4 (6)	-1.5 (3)	2.3	0.9	(6)
TAM	Marathon/Alliance Capital	10.6 (1)	20.4 (1)	-0.8 (1)	6.4 (1)	3.6 (1)	5.1	1.3	(3)
TYN	Capital Int'l	6.4 (9)	4.8 (12)	-6.7 (7)	1.4 (8)	-4.6 (6)	2.7	0.3	(7)
TYN	Multi-Manager	6.1 (13)	9.5 (4)	n.a	n.a	n.a	n.a	n.a	
WEL	Opportunities	9.3 (2)	11.4 (2)	-2.9 (3)	4.0 (3)	n.a	4.9	0.9	(5)
Median		6.4	8.4	-6.7	1.5	-3.6	3.7	0.3	
Value									
AB	Value	6.1 (6)	0.2 (6)	-14.0 (5)	-2.9 (5)	-0.5 (3)	5.7	-1.1	(5)
DFA	Value	6.6 (5)	3.3 (5)	-8.4 (4)	0.1 (3)	0.2 (2)	7.6	-0.1	(4)
ELE	Value	6.8 (4)	10.1 (2)	n.a	n.a	n.a	n.a	n.a	
GMO	Equity Trust	7.0 (3)	5.7 (4)	-7.3 (3)	0.1 (4)	-1.7 (4)	2.1	0.1	(3)
TAM	Marathon	10.7 (1)	19.9 (1)	-1.5 (1)	5.9 (1)	3.4 (1)	5.1	1.2	(2)
WEL	Value	7.2 (2)	9.1 (3)	-2.8 (2)	3.8 (2)	n.a	3.2	1.5	(1)
Median		6.9	7.4	-7.3	0.1	-0.2	5.1	0.1	
Growth									
AB	Research	7.0 (2)	4.7 (3)	-13.1 (3)	-3.7 (3)	-5.9 (2)	6.0	-1.0	(3)
BNP	Growth	5.6 (3)	9.6 (1)	-2.0 (1)	4.1 (1)	n.a	3.5	1.6	(1)
WEL	Growth	8.2 (1)	6.8 (2)	-10.7 (2)	-0.9 (2)	-5.4 (1)	8.1	-0.4	(2)
Median		7.0	6.8	-10.7	-0.9	-5.6	6.0	-0.4	
Indexed									
AMPCI	WINZ	5.6	6.6	-6.3	0.5	-5.6	1.9	0.6	
VAN		6.0	5.1	-7.3	0.2	-4.9	0.5	0.3	
Other									
AMPCI	Extended	8.5	11.0	-3.0	4.1	n.a	13.2	-0.1	
AMPCI	Socially Responsible	5.9	7.4	-4.9	2.4	n.a	3.0	0.9	
GMO	Emerging	13.2	17.8	-3.2	10.2	n.a	9.5	-0.2	
JANA	High Alpha	7.1	7.7	-7.5	0.6	n.a	6.7	0.0	
LMI	Emerging	8.1	13.2	-2.8	11.0	8.2	4.7	-0.3	
TYN	SRI	5.0	5.6	n.a	n.a	n.a	n.a	n.a	
Indexes									
MSCI 0% hedged		6.4	5.0	-7.5	0.1	-5.0			
MSCI 100% hedged		9.5	7.9	-7.8	1.9	2.2			
MSCI Emerging 0% hedged		7.5	15.2	-1.5	11.1	6.8			

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		Hedge Size (\$m)	%	3 months %	1 year % pa	3 years % pa	5 years % pa	3 years Volatility
CIP	Equity	44.2	n.a	7.5	n.a	n.a	n.a	n.a
ELE	Multi-Strategy	n.a	n.a	9.4	13.7	-3.5	n.a	12.9
MAM	Aggressive	118.0	n.a	4.8	9.4	13.7	n.a	7.2
MGH		21.0	n.a	4.0	8.6	0.5	3.5	14.1
PFAM	Commodities	20.0	n.a	5.6	1.3	n.a	n.a	n.a
TCO	Commodity	n.a	70.0	14.9	17.9	-3.3	-0.4	23.9
TYN	JPMAAM	14.6	100.0	4.6	13.2	4.3	8.4	6.7
TYN	Options	126.7	n.a	3.0	12.7	13.8	14.9	15.2
WEL	Commodity	6,434.6	n.a	6.1	17.8	n.a	n.a	n.a
Index								
HFR FoF Hedged NZD				4.1	6.3	0.6	5.5	7.5

Table 4.5 – New Zealand Bonds

Manager	Size (\$m)	3 months		1 year		3 years		5 years		10 years		3 years		
		%	Rank	%	Rank	% pa	Rank	% pa	Rank	% pa	Rank	Tr Error	Info Ratio	Rank
NZ Bonds														
AB	Fixed Income	421.7	2.3 (6)	10.5 (4)	10.4 (2)	8.2 (2)	n.a	1.5	1.2	(3)				
AMPCI	AIF F	829.9	2.4 (5)	9.4 (6)	11.2 (1)	8.7 (1)	7.9 (1)	1.8	1.4 (1)					
AXAGI		209.4	2.4 (4)	12.1 (1)	9.2 (4)	7.6 (4)	n.a	3.4	0.2	(4)				
BTFM	Bond Fund	13.4	2.1 (7)	8.5 (7)	8.7 (5)	7.4 (6)	7.2 (5)	1.3	0.1	(5)				
ING	NZ Fixed Plus	634.2	2.8 (2)	11.9 (2)	7.1 (7)	6.8 (7)	7.4 (4)	3.1	-0.5	(7)				
TAM		499.2	2.6 (3)	9.4 (5)	9.8 (3)	8.1 (3)	7.5 (3)	0.9	1.2	(2)				
TYN		328.7	3.0 (1)	10.7 (3)	8.5 (6)	7.4 (5)	7.6 (2)	1.8	-0.1	(6)				
Median			2.4	10.5	9.2	7.6	7.5	1.8	0.2					
Other														
BTFM	Corporate Bonds	100.4	2.3	9.0	n.a	n.a	n.a	n.a	n.a					
ING	Sovereign	276.2	2.2	8.8	9.1	8.1	n.a	0.7	0.7					
ING	High Grade	305.7	3.3	14.1	5.0	5.4	n.a	6.1	-0.6					
ING	High Yield	52.3	2.4	13.5	9.6	8.4	n.a	3.5	0.3					
TYN	Corporate	28.0	2.8	10.9	n.a	n.a	n.a	n.a	n.a					
Indexes														
	NZ Govt Stock		2.5	9.1	8.6	7.1	7.0							
	NZ All Swaps		3.3	10.5	11.1	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	%	Rank	% pa	Rank	% pa	Rank	% pa	Rank	Tr Error	Info Ratio	Rank
AB	Global Plus (sim)		4.4 (4)	14.4 (5)	10.3 (5)	9.0 (4)	n.a	5.3	0.0	(6)				
AMPCI	AIF Q		3.7 (5)	15.4 (3)	9.4 (7)	8.0 (8)	8.5 (4)	6.3	-0.1	(7)				
AMPCI	AIF HQ		2.7 (10)	10.8 (7)	n.a	n.a	n.a	n.a	n.a					
AXAGI	Multi-manager		3.5 (6)	12.3 (6)	10.1 (6)	8.6 (6)	n.a	3.7	0.0	(5)				
BLK	Global Diversified		2.9 (9)	10.0 (8)	n.a	n.a	n.a	n.a	n.a					
DFA	5 year		3.3 (7)	9.7 (9)	8.8 (8)	8.0 (7)	n.a	2.0	-0.7	(8)				
ING	Int'l Fixed Int.		3.0 (8)	9.0 (10)	10.6 (3)	9.1 (3)	9.1 (3)	1.9	0.2	(3)				
PIMCO			4.5 (2)	16.5 (2)	12.4 (1)	9.9 (1)	n.a	5.7	0.4	(2)				
RUS	Global Bond		4.5 (3)	15.2 (4)	11.8 (2)	9.5 (2)	9.9 (1)	3.6	0.4 (1)					
TAM	PIMCO		4.8 (1)	17.6 (1)	10.6 (4)	8.6 (5)	9.5 (2)	5.2	0.1	(4)				
TYN	FFTW		3.9 (5)	11.5 (7)	10.1 (6)	8.4 (7)	9.1 (4)	2.2	-0.1	(7)				
Median			3.6	13.3	10.4	8.8	9.3	4.5	0.0					
A\$ Hedged														
IBB			3.9	15.7	8.7	n.a	n.a	n.a	n.a					
WEL			3.6	11.7	10.8	8.1	8.6	n.a	n.a					
Indexes														
	Barclays Global Agg		3.0	9.6	10.3	8.7	9.2							
	Citigroup WGBI		2.9	8.4	9.9	8.5	9.0							

Table 4.7 – Cash

Manager	Size (\$m)	3 months		1 year		3 years		5 years		10 years		3 years		
		%	Rank	%	Rank	% pa	Rank	% pa	Rank	% pa	Rank	Tr Error	Info Ratio	Rank
AB	NZ Cash	394.6	0.9 (8)	3.7 (6)	5.9 (6)	6.6 (7)	n.a	0.3	1.2	(5)				
AMPCI	AIF Cash	1251.5	1.1 (2)	4.1 (4)	6.3 (3)	7.0 (4)	6.5 (3)	0.2	4.5 (1)					
AMPCI	Enh Yield	38.3	1.2 (1)	7.8 (1)	7.4 (1)	7.9 (1)	n.a	1.7	1.1	(6)				
AXAGI	Cash	366.5	1.0 (5)	4.0 (5)	5.8 (7)	6.7 (6)	n.a	0.6	0.4	(7)				
BTFM		161.0	1.0 (4)	4.5 (2)	5.2 (8)	6.4 (8)	6.3 (5)	2.0	-0.1	(8)				
ING	Cash Plus	1161.0	1.0 (6)	3.7 (7)	6.1 (4)	7.2 (3)	6.9 (1)	0.3	2.5	(4)				
TAM		922.3	1.0 (7)	3.5 (8)	6.0 (5)	6.7 (5)	6.4 (4)	0.1	4.1	(2)				
TYN		149.1	1.0 (3)	4.3 (3)	6.6 (2)	7.2 (2)	6.9 (2)	0.4	2.9	(3)				
Median			1.0	4.1	6.1	6.9	6.5	0.4	1.8					
Index														
	90 day Bank Bill		0.8	2.9	5.5	6.5	6.3							

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 – Diversified Funds

Manager	3 months		1 year		3 years		5 years		10 years		Asset Alloc		Currency	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	Growth	Income	%	
Balanced														
AMPCI	AIF B	5.9	(4)	6.5	(6)	0.2	(4)	5.4	(3)	4.6	(5)	62.9	37.1	20.0
ASB		6.5	(1)	8.0	(4)	-0.5	(5)	n.a		n.a		59.7	40.3	n.a
AXAGI		6.3	(2)	6.7	(5)	-0.9	(6)	5.4	(4)	6.4	(2)	70.1	30.0	28.5
ING		6.0	(3)	9.6	(2)	0.9	(3)	5.3	(5)	5.0	(4)	64.6	35.4	18.3
TAM		5.0	(6)	9.8	(1)	2.0	(1)	6.6	(1)	6.7	(1)	53.2	46.8	20.3
TYN		5.0	(5)	8.8	(3)	1.2	(2)	5.6	(2)	5.2	(3)	55.7	44.3	19.0
Median		6.0		8.4		0.6		5.4		5.2		61.3	38.7	20.0
SRI Balanced														
AMPCI	SRI Fund	5.7		7.6		n.a		n.a		n.a		62.4	37.6	20.0
TYN		6.4		8.6		n.a		n.a		n.a		n.a	n.a	n.a
Median		6.0		8.1		n.a		n.a		n.a		62.4	37.6	20.0
Conservative														
AMPCI		3.6	(3)	7.2	(4)	6.0	(1)	7.4	(1)	6.4	(1)	27.2	72.8	
ASB		5.2	(1)	8.1	(2)	2.6	(3)	n.a		n.a		40.1	59.9	
AXAGI		5.1	(2)	7.5	(3)	1.4	(4)	5.6	(2)	5.4	(2)	48.7	51.4	
TAM		3.5	(4)	9.7	(1)	4.9	(2)	n.a		n.a		24.4	75.6	
Median		4.4		7.8		3.7		6.5		5.9		33.6	66.4	
Growth														
AMPCI		7.8	(1)	5.5	(4)	-5.2	(4)	3.3	(2)	2.0	(2)	91.3	8.7	
ASB		7.8	(2)	7.4	(2)	-3.6	(3)	n.a		n.a		79.2	20.8	
AXAGI		7.2	(3)	5.9	(3)	-2.9	(2)	4.6	(1)	4.0	(1)	84.9	15.1	
TAM		6.9	(4)	10.9	(1)	-1.6	(1)	n.a		n.a		70.3	29.7	
Median		7.5		6.6		-3.3		3.9		3.0		82.0	18.0	

Section 6 – Additional information

(Funds under management relate to the total organisation)

Acronym	Manager	FUM (\$m)	Acronym	Manager	FUM (\$m)
AB	Alliance Bernstein	n.a	ING	ING	7,430
AMPCI	AMP Capital Investors	n.a	Jana	Jana	n.a
ASB	ASB Group Investments	n.a	LMI	Legg Mason Inc	n.a
AXAGI	AXA Global Investors	3,969	MAM	Milford Asset Management	n.a
BAM	Brook Asset Management	n.a	MGH	MGH Asset Management Ltd	n.a
BLK	BlackRock Investment Management	n.a	MLC	MLC	n.a
BNP	BNP Paribas Investment Management	n.a	MNT	Mint Asset Management	n.a
BTFM	BT Funds Management	n.a	PFAM	Pathfinder Funds	n.a
CIP	Craigs	n.a	PIE	Pie Funds	n.a
DEV	Devon Funds Management Ltd	207	RUS	Russell Investment Group	n.a
DFA	Dimensional Fund Advisors	n.a	SMS	SmartShares	n.a
ELE	Elevation Capital	n.a	TAM	Tower Asset Management	n.a
FIS	Fisher Funds Management	845	TCO	Tower Commodities	n.a
GMO	GMO	n.a	TYN	Tyndall Investment Management	3,551
HAM	Harbour Asset Management	n.a	VAN	Vanguard Investments Australia	102,331
IBB	Ibbotson Associates	n.a	WEL	Wellington Management Company	813,665

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- Determine long-term investment strategies.
- Determine the optimum investment manager configuration.
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- Manager selection exercises utilising Towers Watson's expertise.

Section 7 – KiwiSaver Diversified Funds

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. 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.

Table 7.1 – KiwiSaver Diversified Funds Investment Results

Provider	Fund Name	FUM (\$m)	Grwth BM%	3 months % Rank	1 year % Rank	2 years % pa Rank	3 years % pa Rank	Risk %pa
Aggressive Funds								
AMP	Aggressive	79.4	90.0	5.8 (4)	5.8 (6)	-2.2 (7)	-6.2 (6)	15.4
AMP	Growth	88.2	77.0	5.3 (6)	6.1 (4)	-0.8 (6)	-4.3 (5)	12.8
ASB	Growth	130.2	80.0	7.6 (1)	7.0 (3)	2.5 (5)	-3.8 (3)	13.6
AXA	Growth	49.2	85.0	7.5 (2)	6.1 (5)	5.3 (1)	-4.3 (4)	14.8
SIL	Growth	76.1	80.0	6.4 (3)	7.6 (2)	3.9 (3)	-2.9 (1)	12.5
Tower	Growth	34.9	77.5	5.5 (5)	7.9 (1)	4.1 (2)	-3.1 (2)	13.4
Westpac	Growth	92.8	77.5	4.7 (7)	4.1 (7)	3.7 (4)	n.a	n.a
	Median			5.8	6.1	3.7	-4.1	13.7
Balanced Funds								
AMP	Balanced	98.9	60.0	4.8 (4)	6.6 (8)	2.4 (10)	-0.6 (6)	9.2
AMP	ING Balanced	21.1	62.0	4.7 (5)	9.1 (1)	3.4 (7)	0.7 (3)	10.4
AMP	Moderate Balanced	92.9	51.0	4.3 (7)	6.5 (9)	2.7 (9)	0.4 (4)	7.7
AMP	Tower Balanced	5.7	55.0	3.7 (10)	8.7 (2)	4.5 (5)	1.4 (2)	8.1
AMP	Tyndall Balanced	4.5	55.0	4.0 (9)	7.8 (4)	3.2 (8)	-1.0 (8)	9.4
ASB	Balanced	135.3	60.0	6.4 (1)	7.6 (6)	4.1 (6)	-0.8 (7)	10.3
AXA	Balanced	64.1	60.0	6.2 (2)	7.5 (7)	7.3 (1)	-0.6 (5)	10.7
SIL	Balanced Growth	102.8	65.0	5.7 (3)	7.6 (5)	4.7 (3)	-0.7 (6)	10.0
Tower	Balanced	112.1	55.0	4.7 (6)	8.3 (3)	5.4 (2)	1.7 (1)	8.9
Westpac	Balanced	144.7	63.0	4.2 (8)	4.9 (10)	4.5 (4)	n.a	n.a
	Median		60.0	4.7	7.6	4.5	0.1	9.4
Moderate Funds								
AMP	Moderate	64.0	38.0	3.8 (4)	6.7 (4)	3.9 (4)	2.3 (2)	5.2
ASB	Moderate	166.4	40.0	5.1 (1)	7.7 (1)	5.4 (2)	2.2 (3)	7.0
SIL	Balanced	108.2	50.0	4.9 (2)	7.6 (3)	5.3 (3)	1.4 (4)	7.5
SIL	Cons Balanced	43.0	35.0	4.2 (3)	7.7 (2)	5.8 (1)	3.3 (1)	5.2
	Median		39.0	4.5	7.7	5.4	2.3	6.2
Conservative Funds								
AMP	Conservative	26.3	25.0	3.3 (4)	6.9 (5)	6.3 (4)	5.3 (1)	3.1
AMP	Default	323.9	20.0	2.4 (8)	4.9 (9)	3.9 (9)	3.7 (7)	3.1
ASB	Conservative	741.3	20.0	3.4 (2)	6.4 (6)	6.2 (5)	4.7 (3)	3.2
AXA	Conservative	9.5	25.0	4.0 (1)	7.9 (2)	8.2 (1)	n.a	n.a
AXA	Income Plus	386.7	20.0	3.3 (3)	7.0 (4)	7.5 (2)	4.0 (6)	4.3
SIL	Conservative	128.6	20.0	3.3 (5)	7.3 (3)	6.1 (6)	5.1 (2)	2.9
Tower	Conservative	17.3	30.0	3.1 (6)	8.3 (1)	6.6 (3)	4.1 (5)	5.3
Tower	Default	318.4	20.0	2.2 (9)	5.6 (7)	5.1 (8)	4.4 (4)	3.1
Westpac	Conservative	323.3	25.0	2.8 (7)	5.5 (8)	5.2 (7)	n.a	n.a
	Median		20.0	3.3	6.9	6.2	4.5	3.6

Table 7.2 – KiwiSaver Diversified Funds Asset Allocation

Provider	Fund Name	Aust Shares	Global Shares	Aust Property	Global Prop	Alt Assets	Grwth Assets	NZ Bonds	Global Bonds	Cash	Income Assets
Aggressive Funds											
AMP	Aggressive	19.5	58.3	13.4			91.3	3.3		5.5	8.7
AMP	Growth	16.7	50.0	11.8			78.5	8.7	3.6	9.3	21.6
ASB	Growth	24.1	44.3		9.9		78.3	5.8	11.5	4.4	21.7
AXA	Growth	23.9	55.6	1.5	5.5	2.5	89.0	2.5	2.5	6.0	11.0
SIL	Growth	23.7	43.3	6.1	6.2		79.2	6.2	7.7	6.9	20.8
Tower	Growth	18.3	48.8	3.1			70.3	4.9	9.8	15.0	29.7
Westpac	Growth	27.9	40.8	10.0		0.2	78.9	11.0	6.4	3.7	21.2
Average		22.0	48.7	6.6	3.1	0.4	80.8	6.0	5.9	7.3	19.2
Balanced Funds											
AMP	Balanced	14.9	37.8	10.3			63.0	19.7	12.7	4.6	37.1
AMP	ING Balanced	18.6	33.6	10.3		2.1	64.6	11.9	16.2	7.3	35.4
AMP	Moderate Balanced	11.0	33.3	8.5			52.8	19.5	10.8	16.9	47.2
AMP	Tower Balanced	12.3	31.2	9.7			53.2	10.6	20.2	16.0	46.8
AMP	Tyndall Balanced	9.5	36.2			19.7	65.3	16.6	18.1		34.7
ASB	Balanced	19.5	29.9		10.0		59.4	15.7	18.4	6.5	40.6
AXA	Balanced	16.4	41.2	1.5	2.5	2.5	64.0	5.0	25.0	6.0	36.0
SIL	Balanced Growth	19.0	34.9	5.0	5.1		64.0	11.2	14.6	10.2	36.0
Tower	Balanced	12.3	31.2	9.7			53.1	10.6	20.2	16.0	46.8
Westpac	Balanced	24.1	37.4	5.0		0.2	66.8	20.0	12.0	1.2	33.3
Average		15.8	34.7	6.0	1.8	2.4	60.6	14.1	16.8	8.5	39.4
Moderate Funds											
AMP	Moderate	8.2	25.0	6.8			40.0	24.9	14.4	20.7	60.0
ASB	Moderate	13.8	17.1		9.1		40.0	20.8	26.4	12.8	60.0
SIL	Balanced	14.2	26.4	4.0	4.0		48.6	14.0	22.3	15.1	51.4
SIL	Cons Balanced	9.7	18.2	3.0	3.0		33.8	18.0	28.2	20.0	66.2
Average		12.6	20.6	2.3	5.3		40.8	17.6	25.6	16.0	59.2
Conservative Funds											
AMP	Conservative	5.4	16.6	5.2			27.2	30.3	18.1	24.5	72.8
AMP	Default	5.1	12.8	3.5			21.4	6.7	4.3	67.6	78.6
ASB	Conservative	9.0	11.2				20.1	25.1	29.6	25.1	79.9
AXA	Conservative	6.5	17.1	0.5	2.0	2.0	28.1	18.0	32.0	21.9	71.9
AXA	Income Plus	5.9	14.1		2.0		22.0	15.0	30.1	32.8	78.0
SIL	Conservative	6.2	10.1	1.5	1.5		19.2	20.9	35.1	24.8	80.8
Tower	Conservative	5.6	15.6	3.2			24.4	13.8	29.1	32.7	75.5
Tower	Default	3.9	9.8	4.2			17.8	7.6	15.0	59.6	82.1
Westpac	Conservative	11.9	11.9	5.0		0.2	28.9	30.0	15.0	26.1	71.1
Average		6.6	13.2	2.6	0.6	0.2	23.2	18.6	23.1	35.0	76.7

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