



All of a sudden, the World Cup has been and gone – what a time we had! New Zealand was party central for the international rugby world as the tournament progressed. Local communities threw themselves into supporting the visiting teams – in addition to supporting the All Blacks of course. Not many people would have picked the same four teams to have been in both the semi finals and then the final as in 1987 – and the icing on the cake, of course, was the Webb Ellis Trophy returning to New Zealand.

We heartily congratulate the All Blacks on their performance and particularly how they withstood the pressure of the nation's expectations!

Apart from the World Cup, what other similarities are there to 1987? As you may recall we had a worldwide share market crash that year. What has changed since 1987 and what's in store in the months ahead? World financial markets are possibly facing a tougher challenge now than in 1987. Their resilience will be tested by the credit rating downgrade for the USA, together with the debt crisis facing some European countries, with its potential impact on world financial markets.

A strong managed fund presence in sharemarkets has helped to maintain some level of stability. Asteron's strategy is to remain fully invested through all market phases because we are well aware that nobody "rings a bell" as markets bottom out. Research tells us that the greatest risk to good long term investment performance is being under-invested in recovering markets.

This will be the last time that I address you in my role as Managing Director in New Zealand. I have agreed to take up a similarly challenging role within the broader company in Australia and I'll be leaving at the end of the year. New Zealand has been so good to me and my family over the last seven years and we have thoroughly enjoyed it. I have been able to fully indulge my passion for running thanks to New Zealand's spectacular scenery and I have also had the pleasure of meeting and working with so many positive people. It's been a very special time in my life.

Our trans-Tasman businesses are linked so I shall be following the progress of Asteron in New Zealand with great interest.

It remains for me to thank you for your support over the years for Asteron and to say "Goodbye, New Zealand" – for now.

**Sean Carroll**

Managing Director

## Investment Commentary

Globally, shares declined each month from May through to September amid growing concerns that the US and other major developed economies would see a protracted slowdown. This led to very sharp falls in global equity returns for the past six months.

A downgrade of the US credit rating by Standard & Poor's, a host of weak economic data and a deepening of the Eurozone's debt crisis led investors to cut exposure to riskier assets, including emerging markets stocks. Greece – seen as a test case for the durability of the Euro – came perilously close to default. As concerns over the economy grew, bond markets gained, driven by a strong rally in US Treasuries and German government bonds. European government efforts to draw a line under the Eurozone debt crisis were met with investor scepticism, prompting the European Central Bank to begin purchasing Italian and Spanish government bonds in the secondary market. Prices for energy and other commodities dropped despite ongoing strife in several Middle Eastern countries. The New Zealand dollar (NZD) rose strongly against most countries until September, although it was flat for the six months against the US dollar (USD) and fell against the Yen and Swiss Franc.

The New Zealand sharemarket also fell over the six months, but significantly outperformed its global counterparts. In fact, in the September month, the NZX 50 Gross Index was positive, whereas global sharemarkets had large falls. New Zealand bond returns were very strong over the six months as interest rates continued to move lower in yield. New Zealand 10 year interest rates were significantly affected by global events, falling to a yield of 4.2% in late September. The NZ Government Bond Index returned 6.8% for the period.

Market volatility was exceptionally high in the past six months and the divergence of returns between different asset classes was large. In addition, the extent of currency exposure for global assets had a material bearing on the magnitude of returns, particularly on an intra-month basis. For the first time in a long while, we also saw New Zealand shares significantly outperform Australian shares.

## Future Prospects

A breakup of the Euro was unimaginable to many even a few months ago and this is important not only in terms of the change in financial market sentiment that it has engendered, but also in a very practical sense. It is estimated that there are around EUR60 trillion (more than four times Eurozone GDP) of Over-The-Counter (OTC) bilateral interest rate derivative contracts in existence within the Euro system, which, at the time in which they were created, were designed on the basis that the Euro would

survive in its current form. The likelihood of these trades, though, being settled completely and smoothly in the event of even only one country leaving the Euro is remote. Indeed, work presented at a recent economics conference in the US suggests that, if these OTC markets were to fail, then the global financial system might only survive a few hours before it was either seized or was nationalised at huge expense to taxpayers now and in the future.

The stakes with regard to the Euro's survival are simply immense, but with no clarity as to whether the Europeans will put aside their narrow national interests for the sake of the union, this increased level of uncertainty has caused a paralysis within the world's banking system. Hence, credit markets are freezing, risk assets are deflating again but central banks are largely powerless to act. The US Federal Reserve and even the Bank of England may have attempted to ease their implied policy stances but with their "client" commercial banks effectively frozen by the counterparty risks potentially threatened by the Euro crisis, the transmission mechanisms between the central banks' actions and any effects that they might hope for in the real economies have been jammed.

Therefore, we have not seen an effective policy response even outside the Eurozone to the economic slowdown in the global economy, a slowdown that has been caused primarily by the removal of the various fiscal stimuli that were enacted in 2009 at the G20 Group (of Finance Ministers of industrialised and developing countries) Meeting. It seems that the initial 2010 Greek debt crisis scared the world's politicians into an unintended coordinated and overly draconian fiscal austerity path that has led the world to the brink of a new recession that so far the central banks have been unable to counter for the reasons described above. Even China's economy, which hitherto seems to have been unaffected by global events, would likely suffer under such a scenario given that it now has its own property market and banking system worries to contend with.

If this disturbing situation continues, the world economy will continue its recent descent into a recession and if the Euro were to break up, a depression would be the highly likely outcome. Such an event would favour the USD and perhaps the Yen, while damaging sharemarket prospects and perhaps even the debt markets as investors began to fear sovereign defaults. If Europe's policymakers, though, can agree a successful compromise and an easing of policy, the cost of the actions may be a weaker exchange rate and higher inflation in the Eurozone but the benefits might be an un-jamming of the global financial system, the creation of the potential for a successful counter-cyclical policy response from the G20 and a sharp revival in risk asset prices.

The outlook for the global economy is quite binary at present and the outcome will likely depend on the decisions made over the next few weeks by Europe's squabbling politicians. Rationally, they should do the right thing and accept higher inflation in the Euro and this makes us

perhaps more optimistic than we appear, but their recent actions have been anything other than rational in a collective sense and it is this that makes forecasting the next six months so difficult.

## New Zealand Bond Market

### Six-monthly highlights:

- the NZ Government Bond Index rose a strong 6.8% over the period
- the 90-day Bank Bill rate only rose 1.4%
- the Reserve Bank of NZ (RBNZ) kept the Official Cash Rate at 2.5% for the whole period

New Zealand 10-year interest rates closed the period 1.3% lower in yield at 4.4%. The NZ Government Bond Index outperformed the A-Grade Corporate Bond index by 2.6% over the six months, completely reversing the result of the previous six months. The positive return from bonds was largely a result of the move lower in longer maturity NZ Government Bond yields.

Swap margins were relatively stable, however “credit” in general underperformed. The reason for a widening in credit margins was twofold; a risk-off environment with concerns over potential spillover effects to banks and financial institutions and corporate bond offerings became less attractive to retail investors as the outright nominal yields moved lower.

## New Zealand Sharemarket

### Six-monthly highlights:

- the NZX50 Gross Index fell 1.9% over the period
- the New Zealand market performed very well relative to global markets
- late in the period, NZ had its credit rating downgraded by both Fitch and Standard & Poor’s

Outside of the global market volatility, the period was dominated by the 2011 financial year reporting season. On balance, it could be described as solid with many companies meeting or exceeding expectations for the year past. Many, though, displayed cautionary tones for the year ahead. A number of New Zealand companies continue to expect to benefit from the Christchurch rebuild, although the reconstruction process is not expected to get fully underway until around mid-2012. For a number of companies, though, the pace of recovery remains relatively subdued. Another common theme was those with exposure to a weaker Australian economy, which had come under additional pressure from an elevated Australian dollar.

## Global Share and Bond Markets

### Six-monthly highlights:

- the MSCI World Index fell 15.3% for the period in local currency terms, the largest fall since March 2009
- in contrast, the Barclays Capital Global Aggregate Index (global bonds) rose 6.0%
- the NZD rose 0.2% against the USD, 6% against the Euro and AUD, but fell against the Yen

North American shares started the period with strong earnings, but fell sharply thereafter in response to slowing economic growth in the US, Europe and China. The financials and energy sectors had the sharpest declines. The strongest results came from the health care sector. The US bond market gained despite Standard & Poor’s downgrading US debt to AA+ amid concerns about the public debt.

European shares suffered broad-based declines as fears about the sovereign debt crisis and slowing economic growth rattled investors. Germany slumped as exports fell and its economy slowed. Standard & Poor’s cut its credit rating on Greek debt to CCC and cut Italy’s rating to A.

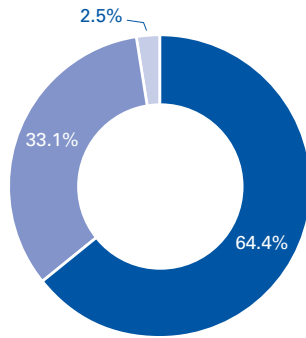
Pacific markets fell as concerns about global economic growth and the ongoing impact of the Japanese earthquake and tsunami weighed on stocks across the region. Prime Minister Naoto Kan’s problems around his handling of the nuclear crisis were exacerbated when it was confirmed that Japan had slipped back into recession. Export-reliant companies also suffered disruptions from power outages and factory closures following the earthquake and tsunami. The yield on the 10-year benchmark Japanese government bond fell to just over 1% as investors sought the relative safety of the bond market.

Fund Information  
as at 30 September 2011

Money Fund

Asset allocation

- Bank Securities
- Non-Bank Securities
- Cash

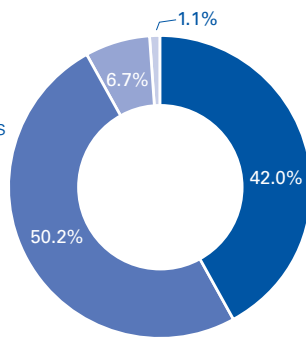


Performance	Unit Linked	Wise Investment
6 months	1.1%	–
1 year	2.2%	–
3 years (pa)	2.5%	–
5 years (pa)	3.6%	–
10 years (pa)	3.6%	–
<b>Fund size (million)</b>	<b>\$1.0</b>	<b>–</b>

Fixed Interest Fund

Asset allocation

- NZ Government Stock
- Corporate Bonds
- Local Authorities & SOEs
- Cash

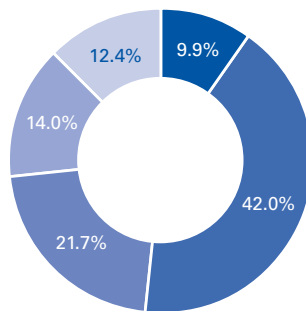


Performance	Unit Linked	Wise Investment
6 months	4.4%	4.3%
1 year	5.3%	4.9%
3 years (pa)	5.2%	4.9%
5 years (pa)	4.3%	4.0%
10 years (pa)	4.2%	3.8%
<b>Fund size (million)</b>	<b>\$2.6</b>	<b>\$0.6</b>

Conservative Fund

Asset allocation

- Short term
- NZ Fixed Interest
- International Fixed Interest
- Trans-Tasman Shares
- International Shares

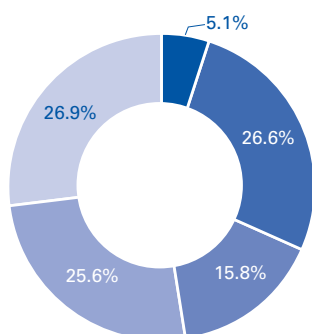


Performance	Unit Linked	Wise Investment
6 months	-1.0%	-1.8%
1 year	1.4%	0.3%
3 years (pa)	2.9%	2.7%
5 years (pa)	1.9%	1.8%
10 years (pa)	3.3%	2.6%
<b>Fund size (million)</b>	<b>\$0.8</b>	<b>\$0.2</b>

### Managed Fund

#### Asset allocation

- Short term
- NZ Fixed Interest
- International Fixed Interest
- Trans-Tasman Shares
- International Shares

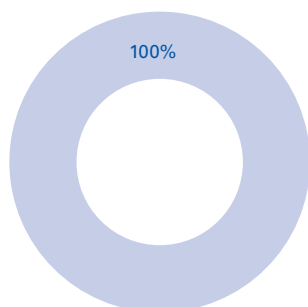


Performance	Unit Linked	Wise Investment
6 months	-4.9%	-5.1%
1 year	-1.0%	-1.6%
3 years (pa)	0.7%	0.3%
5 years (pa)	-0.7%	-1.1%
10 years (pa)	2.5%	1.8%
<b>Fund size (million)</b>	<b>\$89.6</b>	<b>\$2.5</b>

### Mortgage Fund

#### Asset allocation

- Cash

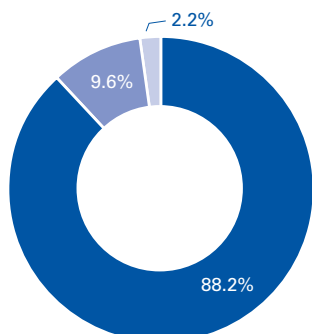


Performance	Unit Linked	Wise Investment
6 months	4.5%	–
1 year	9.3%	–
3 years (pa)	7.0%	–
5 years (pa)	6.3%	–
10 years (pa)	5.4%	–
<b>Fund size (million)</b>	<b>\$0.1</b>	<b>–</b>

### Equity Fund

#### Asset allocation

- NZ Shares
- Australian Shares
- Cash



Performance	Unit Linked	Wise Investment
6 months	-4.0%	-4.2%
1 year	1.4%	0.8%
3 years (pa)	4.1%	3.5%
5 years (pa)	-2.8%	-3.3%
10 years (pa)	4.0%	2.9%
<b>Fund size (million)</b>	<b>\$8.1</b>	<b>\$0.4</b>

#### Top 5 holdings

Fletcher Building; Telecom; Contact Energy; Auckland International Airport; Sky Network TV

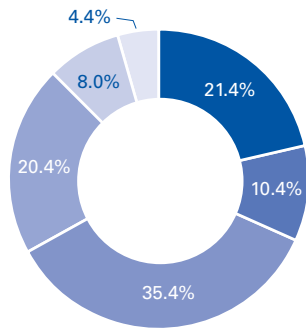




### Aggressive Fund

#### Asset allocation

- Tyndall Aggressive Australasian Equity Fund
- Tyndall Multi Manager Global Equity Fund
- Capital International Emerging Markets
- JP Morgan Chase Multi-Strategy
- Tyndall Option Fund
- Cash



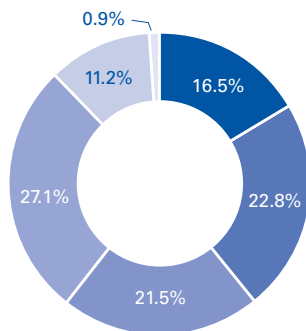
Performance	Unit Linked	Wise Investment
6 months	-12.2%	-12.3%
1 year	-7.2%	-7.5%
3 years (pa)	-5.7%	-6.0%
5 years (pa)	-4.7%	-5.0%
10 years (pa)	2.3%	1.5%

**Fund size (million)** **\$4.6** **\$0.9**

### Saveguard Family

#### Asset allocation

- NZ Government Stock
- Corporate Bonds
- Trans-Tasman Shares
- International Equities
- International Bonds
- Cash



Performance	Saveguard
6 months	-5.6%
1 year	9.5%
3 years (pa)	2.2%
5 years (pa)	1.6%
10 years (pa)	3.9%

**Fund size (million)** **\$12.0**

## Unit Linked Performance

Including: Saveguard Plus, Mortgage Plus, Retirement Plus PSP  
as at 30 September 2011

Fund	Fund size (\$m)	Latest sell price \$	Fund performance								Launch date
			6 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since launch % pa	
Money	1.0	3.666	1.1	2.2	2.2	2.5	3.6	3.9	3.6	5.2	April 1986
Fixed Interest	2.6	4.788	4.4	5.3	6.0	5.2	4.3	4.4	4.2	6.2	April 1986
Conservative	0.8	2.617	-1.0	1.4	3.1	2.9	1.9	3.3	3.3	4.7	August 1990
Managed	89.6	5.628	-4.9	-1.0	1.4	0.7	-0.7	1.8	2.5	7.1	April 1986
Mortgage	0.1	2.940	4.5	9.3	7.6	7.0	6.3	6.0	5.4	5.5	July 1991
Equity	8.1	5.854	-4.0	1.4	0.3	4.1	-2.8	0.7	4.0	7.3	April 1986
Australian Equity	2.4	2.738	-16.2	-9.8	-5.4	4.0	-0.2	5.1	5.1	5.7	March 1993
International Equity	7.1	1.809	-17.6	-10.6	-4.4	-6.6	-6.7	-2.0	-2.2	2.5	September 1987
North American Equity	1.3	1.855	-16.1	-3.0	-0.3	-3.0	-4.3	-0.9	-1.3	4.6	July 1989
European Equity	1.6	1.546	-20.7	-15.2	-9.1	-7.6	-9.0	-2.6	-2.5	3.4	July 1989
UK Equity	0.2	1.583	-18.7	-9.3	1.5	-0.5	-6.1	-1.3	-1.7	1.9	July 1989
Pacific Equity	1.0	1.039	-25.1	-23.9	-9.4	-5.1	-9.2	-1.3	1.0	2.3	July 1989
Aggressive	4.6	2.264	-12.2	-7.2	-2.3	-5.7	-4.7	0.7	2.3	5.8	April 1997
Saveguard	12.0	-	-5.6	9.5	6.0	2.2	1.6	3.8	3.9	6.5	February 1981

Wise Investment Performance  
as at 30 September 2011

Fund	Fund size (\$m)	Latest sell price \$	Fund performance								Launch date
			6 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since launch % pa	
Wise Fixed Interest	0.6	1.925	4.3	4.9	5.7	4.9	4.0	4.0	3.8	4.2	December 1995
Wise Conservative	0.2	1.647	-1.8	0.3	2.2	2.7	1.8	3.0	2.6	3.2	December 1995
Wise Managed	2.5	1.436	-5.1	-1.6	0.7	0.3	-1.1	1.1	1.8	2.3	December 1995
Wise Equity	0.4	1.531	-4.2	0.8	-0.3	3.5	-3.3	-0.1	2.9	2.7	December 1995
Wise Australian Equity	0.4	1.678	-16.4	-10.2	-5.8	3.5	-0.8	4.1	3.9	3.9	March 1998
Wise International Equity	0.6	1.093	-17.7	-11.0	-4.7	-7.0	-7.1	-2.4	-2.6	0.6	December 1995
Wise Nth American Equity	0.1	0.889	-16.3	-3.4	-0.7	-3.4	-4.7	-1.4	-1.9	-0.9	March 1998
Wise European Equity	0.1	0.793	-20.9	-15.5	-9.5	-8.0	-9.3	-3.0	-3.0	-1.7	March 1998
Wise UK Equity	0.0†	0.791	-18.9	-9.7	1.1	-0.9	-6.5	-1.8	-2.3	-1.7	March 1998
Wise Pacific Equity	0.1	1.031	-25.2	-24.2	-9.8	-5.4	-9.6	-1.8	0.5	0.2	March 1998
Wise Aggressive	0.9	2.239	-12.3	-7.5	-2.6	-6.0	-5.0	0.1	1.5	5.7	April 1997

† Fund sizes are less than \$50,000

**Notes applicable to this whole document:**

1. These products are closed to new business.
2. The performance of each fund is calculated from the movement in the sell price over the period shown.
3. Performance returns for periods of less than one year are non-annualised. Returns for periods of one year or more are shown as compound annual rates of return.
4. Returns are calculated after tax and investment management fees have been deducted but before any policy charges or other fees which may apply.
5. The products shown in this report are life insurance policies and Superannuation Schemes for the purpose of the Securities Act 1978 ("Securities Act") and Securities Regulations 2009 ("Regulations").
6. Returns shown are historical and are not necessarily an indication of future performance.
7. This information is of a general nature and is not personalised to your situation. If you would like advice which takes account of your particular financial situation

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8. For more information on Unit Linked (including Saveguard Plus, Mortgage Plus and Retirement Plus PSP) and Wise Investment products please refer to the last published Investment Statements. To obtain a copy of any of these Investment Statements for information purposes only contact Asteron Life Limited on 0800 808 101.

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