

## **Eriksens Master Trust Survey Results to 31 March 2010**

### **Investment Returns**

The March 2010 quarter was generally a good one for investors. It continued the improvements seen during the last 12 months.

In the last year growth funds returned 20.3% (13.0%), balanced funds returned 16.5% (10.8%), and conservative funds returned 8.7% (6.1%) after tax, expenses and fees (the previous quarter's rolling twelve months are shown in brackets).

These returns continue the improvements seen in recent quarters. Managed funds are now beginning to offer reasonable real returns over both the net cash rate of 1.9% and inflation 2% to the considerable relief of investors.

### **Economic Commentary**

While economists and professional cheerleaders have been heralding the end of the global credit crisis and the return of economic growth, they have been ignoring some significant unresolved issues. Perhaps the biggest is the number of countries with a high level of sovereign debt and their potential to once again disrupt international credit markets. A feature of this has been that it includes not only normal government borrowing but also the socialisation of private debt, principally from failed banks.

The dangers of governments defaulting on their debts are well understood and can be contained. However, political considerations get in the way. Nowhere is this more obvious than in Europe where some of the less wealthy Euro zone countries borrowed too much when credit was cheap. Chief amongst these is Greece whose bonds have now reached junk status so cannot be readily refinanced. Given an independent currency Greece would be able to devalue, thus making its exports more competitive and reducing demand internally. While this would increase the servicing costs of foreign borrowing, default (or debt restructuring) would be a possibility.

As a Euro zone country Greece has no control over monetary policy. It is stuck with an overvalued currency, leaving fiscal changes (mainly higher taxes and reduced government spending) as its only options. The difficulty is that the Greek Government has effectively had a policy of borrowing to buy votes. There is public anger at the thought of losing the perks so gained. Featherbedding of public service jobs, early retirement with generous pensions and tax avoidance are deeply ingrained. Attempts at reform have caused large public demonstrations.

It has repercussions outside Greece because of the loss of confidence in the Euro. Attempts have been made for other European countries (mainly Germany) to refinance the Greeks. This has aroused considerable opposition amongst Germans who do not see why they should have to bail out a profligate country. A tripling in the bailout amount has also not helped.

Letting Greece default on its debt is also not seen as helpful. German, French and other European banks hold most of its debt. Having Greece leave the Euro and return to the drachma would also destabilise the European banking system.

The delay in finding a solution has made matters worse by further unsettling the financial markets. Finding a solution is now urgent. At this point a compromise package involving the other Euro countries and the IMF seems to work. The IMF's participation dents the pride of European central bankers. It also gets around the legal challenges to an EU bailout and helps to enforce reform within the Greek economy.

We suggest investors prepare for continued volatility.

### **NZ News**

The Government's announcement of a new financial services regulator and the registration of financial advisers may turn out to be counterproductive.

The proposed Financial Markets Authority combines much of the existing regulation of financial services into one organisation and adds some extra powers. Our concern however is that, in using those powers, it will also add to the regulatory costs with no additional benefits for investors.

Fund managers, superannuation providers and KiwiSaver providers are already struggling to keep up with current compliance requirements and any more will simply add to the costs. The recent withdrawal of a KiwiSaver provider from the market might well be the forerunner of others.

### **Eriksens Conference**

This year's conference is to be held at the Stamford Plaza in Auckland on Tuesday 14 September. Please mark your diaries now.

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## Eriksen's Master Trust Survey Results to 31 March 2010

Fund Name	Fund Size \$ million	Annual Returns (Net of Tax & Expenses)					No. of Employers
		1 Year	2 Year	3 Year	4 Year	5 Year	
<b>Growth Funds</b>							
AXA SMT Multi-Mgr High Growth	119.6	30.4	-0.4	-4.6	-2.8	2.0	122
Aventine's SuperLife Aim80	12.1	28.6	-0.3	-3.4	-1.0	3.4	
Mercer Growth	67.7	24.2	-2.6	-4.4	-2.2	1.7	
Aon Growth	5.1	23.7	-1.0	-4.0	-1.6	2.0	
Tower LifeSaver Growth	20.9	21.7	-3.5	-4.2			
ASB SMT Growth	122.7	21.2	-3.3	-3.8	-1.6	2.6	
AMP Lifesteps Aggressive	8.1	15.4	-5.4	-5.1	-2.1	2.8	
AMP High Equity	190.4	15.4	-5.4	-5.1	-2.1	2.8	
WestpacTrust Dynamic	103.6	15.0	-2.3	-5.3	-3.1	1.0	
AMP Lifesteps Growth	29.6	13.4	-3.0	-2.9	-0.6	3.6	
<b>All Growth Funds</b>	<b>679.8</b>	<b>20.3</b>	<b>-3.1</b>	<b>-4.6</b>	<b>-2.2</b>	<b>2.2</b>	38
							152

The material presented here has been compiled from publicly available sources and information from the respective Master Trust providers. Where tax paid returns for PIE compliant funds have not been available, tax paid returns have been calculated using a 33% tax rate up to 31 March 2008 and 30% thereafter.

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<b>Balanced Funds</b>							
Aventine's SuperLife Aim60	27.3	23.3	2.2	-0.2	1.1	4.2	122
Mercer Active Balanced	105.1	23.1	-1.1	-2.8	-1.1	2.2	
AXA SMT Multi-Mgr Balanced	354.9	22.9	1.0	-2.2	-0.8	2.5	
Aventine's SuperLife Trustee60	123.3	19.5	4.0	0.7	1.7		122
Aon Balanced	31.4	18.8	2.5	-0.4	1.0	3.5	51
ASB SMT Balanced	285.0	17.1	-1.0	-1.2	0.3	3.4	
AMP ING Balanced	154.1	16.1	1.0	-1.3	0.2	4.0	
AMP ASB Balanced	30.3	16.0	-0.4	-1.0	0.6	3.7	
Tower Lifesaver Balanced	179.3	15.5		0.8	2.1	4.6	152
AMP Tyndall Balanced (formerly BT balanced)	89.4	15.0		-2.8	-1.2	2.4	
AMP Tyndall Fund Backtested **		14.9	0.4	-1.0	0.1	2.8	
Aventine's SuperLife Ethica	0.3	13.7	5.3				
AMP Tower Balanced	107.5	13.4	1.3	1.6	2.8	4.8	
WestpacTrust Balanced	110.6	13.1	-0.7	-3.2	-1.7	1.7	
AMP Lifesteps Balanced	48.0	10.9	0.5	0.2	1.6	4.8	
AMP Balanced	326.0	10.9	0.6	0.1	1.5	4.3	
AMP Lifesteps Moderate Balanced	65.3	9.6	1.8	1.4	2.3	4.9	
<b>All Balanced Funds</b>	<b>2,037.8</b>	<b>16.5</b>	<b>0.6</b>	<b>-0.8</b>	<b>0.5</b>	<b>3.3</b>	

\* The AMP Tyndall Balanced Fund was managed by BT until 25 June 2008

\*\* The AMP Tyndall Balanced Fund was managed by BT until 25 June 2008, and the returns shown for that fund are a composite of the BT and Tyndall earnings.

Since we have been asked what the actual performance of the Tyndall option would have been had Tyndall managed the fund for the full period these are back tested returns for a hypothetical pure Tyndall fund.

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<b>Conservative Funds</b>							
Mercer Conservative	36.8	16.6	2.3	1.5	2.3	3.9	
Aventine's SuperLife Aim30	35.7	14.6	4.8	3.0	3.5	4.9	122
ASB SMT Conservative	74.8	12.7	1.5	1.4	2.1	4.2	
Aon Conservative	11.8	12.3	4.4	2.8	3.4	4.4	46
Tower LifeSaver Conservative	7.2	11.4	2.4	2.3			152
AXA SMT Multi-Mgr Conservative	121.7	11.4	2.8	1.4	2.0	3.4	
AMP Lifesteps Moderate	42.6	7.8	3.9	3.1	3.5	5.3	
Aon Capital Stable	3.8	7.0	5.3	4.9	4.2	4.7	23
AMP Lifesteps Conservative	8.8	6.0	5.4	4.4	4.3	5.4	
AMP Capital Stable	88.7	6.0	5.4	4.5	4.3	5.5	
Tower Capital Preservation	27.0	4.4	4.4	4.6	4.8	4.7	152
WestpacTrust Accumulation	29.8	4.3	3.4	3.5	3.6	3.8	
AMP Capital Assured	104.8	2.6	3.1	3.4	3.6	3.6	
<b>All Conservative Funds</b>	<b>593.5</b>	<b>8.7</b>	<b>3.4</b>	<b>2.8</b>	<b>3.2</b>	<b>4.2</b>	

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<b>Single Sector Aggressive</b>							
Aventine's SuperLife Oseas Shares Hedged	82.6	48.1	-3.4	-5.1	-1.4	3.3	
Aventine's SuperLife Australian Shares	26.6	42.0	1.6	3.2			
Aventine's SuperLife NZ Shares	40.8	33.9	1.8	-4.4	-0.9	2.8	
Aventine's SuperLife Property	6.4	30.4	-9.6	-13.7	-6.4	-0.8	
Mercer Shares	18.0	26.7	-7.3	-9.1	-6.3	-0.4	
Tower LifeSaver Equity	25.2	25.2	-6.8	-8.0	-5.0	1.7	152
Tower Focus NZ Shares	8.3	24.9	-3.8	-7.9	-4.2	-0.3	152
Aventine's SuperLife Oseas Shares Unhedged	55.5	20.5	-3.5	-7.1	-6.2	0.9	
Aventine's SuperLife Gemino	0.8	10.6	-15.0				
<b>All Single Sector Aggressive</b>	<b>264.2</b>	<b>34.6</b>	<b>-2.9</b>	<b>-5.4</b>	<b>-3.1</b>	<b>1.8</b>	

Fund Name	Fund Size \$ million	Annual Returns (Net of Tax & Expenses)					No of Employers
		1 Year	2 Year	3 Year	4 Year	5 Year	
<b>Single Sector Defensive</b>							
Aventine's SuperLife Overseas Non Govt Bonds	24.9	9.0	9.3	8.1	7.2	6.2	
Aventine's SuperLife NZ Bonds	75.7	6.7	7.0	5.2	5.0	5.1	
Aventine's SuperLife Overseas Govt Bonds	50.8	5.8	7.7	8.0	7.2	6.4	
Tower Focus Fixed Income	9.7	3.8	6.4	5.4	4.7	4.7	152
AMP Cash	57.3	3.2	4.7				
Tower LifeSaver Preservation	23.9	2.9	3.9	4.2	4.3	4.4	152
Aventine's SuperLife Cash	80.8	2.6	4.2	4.6	4.7	4.7	
AXA SMT Cash	72.5	2.3	2.9	3.5	3.8	4.0	
Mercer Cash	38.7	1.6	3.1	3.7	3.9	4.1	
<b>All Single Sector Defensive</b>	<b>434.2</b>	<b>4.0</b>	<b>5.2</b>	<b>5.1</b>	<b>5.0</b>	<b>4.9</b>	
<b>Total Funds</b>	<b>4,009.5</b>	<b>15.8</b>	<b>0.6</b>	<b>-0.7</b>	<b>0.7</b>	<b>3.3</b>	
<b>CPI</b>		<b>2.0</b>	<b>2.5</b>	<b>2.8</b>	<b>2.7</b>	<b>2.8</b>	
<b>Cash Benchmark (Net)</b>		<b>1.9</b>	<b>3.1</b>	<b>4.0</b>	<b>4.2</b>	<b>4.4</b>	

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