

Master Trust Survey Results to 30 June 2003

Investment Returns

Returns for the quarter were good, reflecting increases in international share markets. Average 12 month conservative fund returns were 3.5% (just below the cash rate return of 3.8%), balanced funds returned – 0.3% and growth funds –2.3%. Over all funds the 12 month return was 0.1%. This is a substantial improvement over recent quarters for all fund types but is still negative in real terms. The total value of funds invested also reversed recent trends when they rose by 1.7% over the quarter.

We have commented previously that the proportion of master trust savings invested in growth funds has held up resolutely against falling markets. This trend has now reversed. Growth funds have gone from almost 19% of the total a year ago to 14% this time. Since there has also been a marginal fall in balanced funds, the winner has been the conservative options, which in a year have gone from 14% of the total to just on 20%. It will be interesting to see whether this continues.

The Royal & SunAlliance funds are now shown under their new Asteron brand. Additional funds from the AXA Superannuation Master Trust have also been included for the first time.

Economic Commentary

Although world share markets rebounded during the quarter, we regard this as a bounce from the lowest level rather than the beginning of a sustained recovery since the world economy is still in a very fragile state. Fund managers currently have considerable amounts of cash to invest, so any sign of improvement tends to bring those funds into the market. This glut of liquidity may help to explain the disconnection between investment markets which rose sharply last quarter and the global economy which is in recession.

Looking forward, we expect the current market volatility to continue for some time as there is still considerable uncertainty in world investment markets, and any gains made on one day can just as quickly be lost the next.

U.S. consumer spending is continuing but could quickly dry up if perceived household wealth falls due to unemployment, falling house prices or an inability to borrow further. Bond yields internationally rose sharply at the end of the quarter suggesting that concern over deflation may have eased.

The projected U.S. budget deficit for this fiscal year is now 50% larger than forecast in February, having increased from \$304 billion to \$455 billion. Factors

causing this include President Bush's tax cuts, a slower than expected economy, the war in Iraq and increased Government spending (particularly in the defense field).

Predictions for the rest of the world are also difficult to make, although the general feeling is that things must get tighter before they start to improve.

Superannuation Policy

We recently updated our thoughts on superannuation to the Periodic Review Group. In our opinion, time has now run out for further debate as the baby boomers approach retirement. New Zealand Superannuation is a useful starting point in providing income in retirement but it is not sufficient in itself.

We favour a compulsory occupational pension, funded by 3% contributions from both employers and employees, possibly in conjunction with a reduction in the company tax rate to 30% and personal tax cuts. Employees would also be able to make voluntary contributions.

All contributions would be taxed at the employee's marginal rate, while the investment income would be allowed to accumulate tax free as a trade off for being locked in. The retirement income when paid (max 25% lump sum) would be partially taxed as an offset against New Zealand Superannuation.

Employees would choose their own retirement dates based on the level of retirement savings they had at the time. This would include the right to defer payment of New Zealand Superannuation past 65 in exchange for receiving it at a higher rate later.

We are pleased with the PRG Review and ISI's initiatives. The superannuation debate now has a momentum it has not had for some time. We hope that this activity, combined with Dr. Cullen's keen interest, will encourage the debate to develop into constructive implementation of a positive retirement savings system for New Zealanders.

We welcome your comments!

Contact us at

Auckland auckland@eriksensglobal.com Ph 64 9 486 3144
Wellington wellington@eriksensglobal.com Ph 64 4 470 6144
Sydney sydney@eriksensglobal.com Ph 61 2 9223 3747

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Fund Name	Fund Size \$ million	Annual Returns (Net of Tax & Expenses)					No. of Employers
		1 Year	2 Year	3 Year	4 Year	5 Year	
Growth Funds							
Tower Focus NZ Shares	48.5	8.90	5.20	5.80	6.20	7.60	287
AXA SMT Multi-Mgr NZ & Aust Equities	7.2	4.70	4.90	5.10			
Sovereign ESP Australasian Equities	0.2	4.30	0.40	4.20	4.60	6.40	
Sovereign SERP Sovereign Managed Growth	2.5	-1.30	-1.70				
Mercer Growth	59.2	-1.40	-4.40	-3.30	-0.60		
GRT Individual Retirement Plan Growth	11.9	-1.70	-5.80	-5.00	-1.30	1.10	
ASB Funds Management Growth	3.2	-2.40	-6.60	-6.30	-1.20	0.90	
Jacques Martin Growth Fund	38.4	-3.00	-9.00	-7.90	-2.80	0.10	249
Sovereign ESP Special Values	2.8	-3.20	-5.20	-3.20	0.40	1.60	
Sovereign SERP Dynamic Growth	1.5	-3.20	-7.40				
Tower Growth	1.9	-3.80	-6.10				279
AMP High Equity	12.0	-4.20	-10.60	-9.10	-4.10	-1.00	510
WestpacTrust Dynamic	126.0	-4.60	-9.20	-7.30	-3.10	-0.90	60
Tower BNZ Dynamic Growth	4.0	-4.60	-7.90	-5.70	-2.00		279
Mercer Shares	7.2	-4.90	-9.20	-7.60	-3.20		
Sovereign SERP Sovereign Dynamic Growth	1.1	-5.30	-6.10				
AXA SMT Multi-Mgr High Growth	23.9	-5.40	-8.70	-7.30			
Tower Focus International Shares	18.1	-6.50	-6.80	-6.70	-3.70	-2.20	282
AXA SMT AXA Centred High Growth	5.3	-6.50	-8.30	-7.30			
Sovereign ESP International Equities	0.9	-8.50	-9.80	-8.20	-1.50	0.30	
AXA SMT Multi-Mgr Intl Equities	10.6	-10.60	-15.00	-13.30			
Tower BT International Shares	2.5	-11.40	-14.10				279
All Growth Funds	388.8	-2.30	-6.20	-4.90	-1.20	0.90	
Balanced Funds							
Asteron (formerly Royal Sun All) Managed Fund	71.9	3.40	0.30	0.10	2.10	3.20	
Sovereign SERP Balanced	7.7	2.70	-0.20				
Tower ANZFM Balanced	3.0	1.50	-1.20				279
Tower Balanced	351.0	1.00	0.10	1.20	2.10	2.70	321
GRT Individual Retirement Plan Balanced	22.4	0.90	-2.40	-1.90	0.40	2.00	
AMP ANZ Balanced	50.0	0.40	-1.70	-0.20	1.00	2.80	393
Tower ING SIL Balanced Fund	1.2	0.40	-1.50				279
Jacques Martin Balanced	68.6	0.20	-2.60	-1.60	0.60	2.20	249
Sovereign ESP Balanced Growth	8.3	-0.10	-1.80	-0.20	2.20	3.30	
ING SIL Balanced	191.1	-0.10	-2.00	-2.40	0.20	1.90	12
ASB Funds Management Balanced	6.4	-0.50	-4.30	-3.60	-0.10	2.10	
AMP ING Balanced	11.5	-0.60	-2.70	-3.00			232
Tower BT Managed Growth	22.1	-0.70	-2.60	-1.60	1.80	2.90	279
AMP ASB Balanced	2.2	-0.90	-4.60				144
AMP BT	38.2	-1.00	-2.80	-1.80	1.20	2.30	368
Jacques Martin Asset Growth	13.9	-1.10	-2.60	-0.60	1.70	2.90	249
WestpacTrust Balanced	180.8	-1.20	-5.60	-4.10	-1.10	0.50	60
Planit Plans Diversified	42.8	-1.40	-5.00	-4.20	-0.60	1.40	65
Tower BNZ Balanced Growth	4.5	-1.70	-5.00	-3.10	-0.50		279
AMP Balanced	313.4	-1.70	-6.00	-4.50	-1.60	0.40	599
AXA SMT Multi-Mgr Balanced	69.9	-2.00	-4.40	-3.40			
AXA SMT AXA Centred Balanced	23.2	-3.30	-4.00	-3.40			
All Balanced Funds	1,504.1	-0.30	-3.00	-2.10	0.30	1.70	

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Fund Name	Fund Size \$ million	Annual Returns (Net of Tax & Expenses)					No of Employers
		1 Year	2 Year	3 Year	4 Year	5 Year	
Conservative Funds							
AXA SMT Multi-Mgr NZ Listed Intl Property	2.0	8.40	7.10	7.50			
AXA SMT Multi-Mgr NZ Fixed Interest	9.1	6.50	5.80	5.40			
Sovereign ESP Global Fixed Interest	0.2	6.50	5.40	5.20	4.30	4.50	
Tower Focus Fixed Income	18.9	6.40	5.10	4.70	4.30	4.50	284
Jacques Martin Cash Management	15.4	5.60	4.70	5.00	4.70	4.20	249
AXA SMT Multi-Mgr Intl Fixed Interest	2.4	5.30	4.50	5.20			
Asteron (formerly Royal Sun All) Deposit Fund	20.2	5.00	4.60	4.50	4.30	4.20	
AMP Capital Assured	93.4	4.40	4.70	4.90	4.80	4.90	333
Mercer Conservative Growth	25.0	3.80	2.40	2.40	3.20		
GRT Individual Retirement Plan Stable	5.6	3.80	1.60	1.60	2.50	3.30	
AXA SMT Cash	22.3	3.70	3.90	3.90			
WestpacTrust Accumulation	53.9	3.60	3.50	3.80	3.60	3.80	60
Tower Focus Cash	20.8	3.40	3.20	3.50	3.40	3.40	290
Sovereign ESP Conservative	1.3	3.40	2.50	2.90	2.90	3.30	
AXA SMT AXA Centred Low Risk	18.8	3.30	3.30	3.40			
Sovereign SERP Cash	1.3	3.20	3.00				
Jacques Martin Capital Stable	27.4	3.00		0.50	2.00	2.90	249
Sovereign SERP Conservative	0.9	2.90	0.90				
Mercer Cash	7.0	2.90	3.20	3.20	3.40		
Tower Capital Preservation	42.6	2.50	2.90	4.10	4.90	5.40	279
AXA SMT Multi-Mgr Conservative	14.7	2.50	1.30	1.70			
Sovereign SERP Sovereign Conservative	1.2	2.20	1.20				
ASB Funds Management Conservative	0.5	2.00	2.20	1.80	2.70	3.70	
AXA SMT AXA Centred Conservative	12.4	1.50	1.70	1.80			
AMP Capital Stable	65.0	1.10	-0.70		1.30	2.20	232
Tower BNZ Conservative	2.8	0.70	-1.20	0.60	1.00		279
All Conservative Funds	485.0	3.50	2.90	3.20	3.60	4.00	
Total Funds	2,377.9	0.10	-2.30	-1.40	0.70	2.00	
Cash Benchmark (Net)		3.80	3.70	3.90	3.90	3.80	
CPI		1.50	2.10	2.50	2.40	1.80	

The material presented here has been compiled from publicly available sources and information from the respective Master Trust providers. Eriksen & Associates accepts no liability for any errors herein, or any decisions made as a consequence of the information shown. Investment decisions or comparisons should not be based on past performances in isolation from other factors.

Contact us:

Auckland	auckland@eriksensglobal.com	Ph: 64 9 486 3144
Wellington	wellington@eriksensglobal.com	Ph: 64 4 470 6144
Sydney	sydney@eriksensglobal.com	Ph: 61 2 9223 3747

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