

Master Trust Survey Results to 30 September 2004

Investment Returns

Overall 12-month returns for the September quarter again showed a slight decline as the effects of last year's good quarters continue to drop out. Compared to the last survey (in brackets) average 12-month conservative fund returns were 3.6% (3.4%); balanced funds returned 7.7% (9.1%) and growth funds 8.6% (11.9%). The total 12-month return was 7.1% (8.6%) giving a 4.6% (6.2%) real rate of return over all the funds surveyed.

While the total value of funds surveyed was essentially unchanged over the quarter, there has still been an overall increase of 10% in the funds surveyed over the last 12 months. We have also noted a slight increase in the amount of balanced funds within the total funds. This has been at the expense of both the growth and conservative funds.

AXA have removed their AXA based and single sector funds from their master trust. These have been removed from this quarter's survey.

Economic Commentary

As the price of oil rose during the year, we were regularly reminded that it was still relatively cheap in historical terms and that there was no cause to panic. Now, with a northern hemisphere winter drawing closer, and the oil price over US\$50 per barrel, there are emerging signs of concern in the U.S., Europe and Japan. Warnings of slowing international growth are being made and higher raw material prices are beginning to flow on to consumers. U.S. manufacturer Whirlpool Corp, for example, recently reported a reduced 2004 outlook and 5-10 per cent price increases on its appliances as a result of higher steel and oil prices.

Meanwhile, the outflow of Western manufacturing and service jobs to China, India and other Asian countries continues unabated. In the U.S. it has become an election issue, and Western Europe has been surprised to see its work also going to Asia rather than the much closer lower waged East European countries. As the large Asian countries industrialise, they will increasingly rival the U.S. in key technical areas. An open source software culture seems to be emerging in a number of developing countries. Will this be where the next Microsoft comes from?

New Zealand may be heading for an economic slowdown, although we do not expect it to have serious effects. The housing market has flattened out, and the effects of sustained higher oil prices are starting to be felt.

Superannuation News

The Government set up a Savings Product Working Group earlier this year to advise on ways workers could save for retirement via a generic employment related savings product. It has now recommended that employers should be obliged to provide new employees with access to a scheme. The new schemes would probably be master trust based, with each employer choosing the master trust they would offer. Contributions by the employee would be deducted by the employer at source and paid to the IRD, who would pass it on to the scheme. Employers would not be required to contribute.

We are disappointed that the Group's recommendations do not go further and would like to see private sector employees provided with a similar scheme to that just introduced for the state sector. Employers would be required to make compulsory employer contributions matching the employee's regular contributions. To compensate employers for the extra cost, the company tax rate would be reduced by 3c in the dollar. Employees would also make the choice of which master trust they joined. In our view, this would provide employees with a real incentive to participate. As the proposal stands, there is no real reason for them to do so.

The attractiveness of workplace superannuation may also be influenced by other taxation policy discussions that are now under way. For example, Dr. Cullen has indicated a possible willingness to remove the tax on capital gains paid by superannuation funds but which is not paid on shares owned directly by individuals.

This issue is also expected to be tackled by the working group chaired by the former BT head Craig Stobo. Other anomalies this working group may consider include the tax inconsistencies between local and overseas investment, active and passive funds and the inability for managed funds to be taxed at an investor's marginal tax rate. These are significant issues. We await the Stobo group's findings with interest.

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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	60.2	16.2	14.9	12.0	8.8	9.2	303
Tower BT International Shares	4.1	15.5	8.1	-0.7			293
Sovereign ESP Australasian Equities	0.3	14.2	14.6	8.0	7.0	8.0	
AMP High Equity	132.3	10.9	10.2	1.5	-4.9	-0.3	569
AMP Lifesteps Establishment	0.4	10.5	10.0	1.4	-5.1	-0.6	64
AMP Lifesteps Growth	0.9	9.4	9.0	1.7	-3.8		81
ASB Group Investments Growth	11.0	9.1	8.0	1.5	-2.7	1.2	
Tower Growth	3.4	8.4	7.5	2.2	-1.5		293
GRT Individual Retirement Plan Growth	16.5	8.4	8.3	2.5	-1.8	1.2	
AXA SMT Multi-Mgr High Growth	40.8	7.9	6.0	0.5	-3.8		
Tower Focus International Shares	23.9	7.7	8.6	2.7	-2.8		298
Jacques Martin Growth Fund	43.9	7.6	6.0	0.1	-4.6	-0.4	250
Mercer Shares	10.9	6.5	6.1	0.3	-4.1	-0.6	
Tower BNZ Dynamic Growth	6.1	5.7	2.2	-1.1	-3.7	-0.5	293
WestpacTrust Dynamic	131.7	5.6	5.6	-0.7	-4.1	-0.9	60
Sovereign SERP Sovereign Managed Growth	3.4	5.1	4.7	1.8			
Mercer Growth	62.8	5.0	5.1	1.6	-1.1	1.2	
Sovereign SERP Sovereign Dynamic Growth	2.0	4.5	3.7	0.1			
Sovereign ESP Special Values	1.3	3.9	5.0	0.6	-1.9	2.1	
Sovereign SERP Dynamic Growth	2.1	2.8	2.9	-1.5			
Sovereign ESP International Equities	1.0	0.8	2.2	-2.6	-7.0	-0.1	
All Growth Funds	559.0	8.6	7.9	2.0	-2.4	1.0	
Balanced Funds							
Tower BT Managed Growth	27.0	12.8	8.8	4.4	1.8	4.3	293
Tower ING SIL Balanced Fund	2.1	11.4	9.0	4.9			293
ING SIL Balanced	232.6	10.9	8.5	4.4	0.7	2.5	11
AMP ING Balanced	46.6	9.8	7.6	3.9	0.4		481
AMP Lifesteps Progression	0.9	8.4	8.0	1.9	-2.6	0.6	68
Tower Balanced	384.8	7.9	6.6	4.1	2.7	3.7	330
Asteron Managed Fund	76.4	7.8	7.6	4.9	2.0	3.6	
AMP Balanced	289.9	7.4	6.6	1.4	-2.1	0.8	622
AMP Lifesteps Consolidation	0.8	7.4	7.0	2.2	-1.4	1.2	57
ASB Group Investments Balanced	22.9	7.3	6.8	2.1	-0.9	1.6	
Tower ANZFM Balanced	3.2	7.2	7.0	3.7			293
AMP Tower Balanced	31.2	6.8	5.8	3.5	2.1	3.2	434
GRT Individual Retirement Plan Balanced	28.9	6.8	6.9	3.0	12.0	2.1	
Mercer Active Balanced	22.6	6.7	7.2	3.6	0.90	2.7	
AXA SMT Multi-Mgr Balanced	134.6	6.4	5.0	1.5	-1.1		
Jacques Martin Balanced	74.4	6.3	5.3	1.7	0.1	2.0	250
AMP BT	42.2	6.2	5.4	2.5		2.5	407
AMP ASB Balanced	5.1	6.0	6.4	2.0	-2.0		243
MCA Superlife Aim60	59.0	6.0	6.5	2.2	-1.7	0.8	
Jacques Martin Asset Growth	15.1	5.4	5.2	1.9	0.6	2.8	250
WestpacTrust Balanced	173.5	5.2	5.8	0.9	-1.8	0.6	60
Tower BNZ Balanced Growth	5.6	4.8	3.4	0.3	-1.4	0.9	293
Sovereign ESP Balanced Growth	5.2	4.6	5.5	1.9	0.6	3.5	
All Balanced Funds	1,684.6	7.7	6.6	2.9	0.4	2.2	

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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							
AMP Lifesteps Stability	1.1	6.4	6.0	2.5	-0.2	1.8	34
ASB Group Investments Conservative	4.3	5.6	5.6	2.8	2.7	3.4	
AMP Capital Stable	41.6	5.2	4.9	2.7	1.0	2.3	290
GRT Individual Retirement Plan Stable	8.1	5.1	5.5	3.6	2.3	3.3	
AMP Lifesteps Maturity		5.1	4.8	2.6	0.9	2.2	6
AXA SMT Multi-Mgr Conservative	58.6	4.5	3.8	2.8	2.3		
Mercer Conservative	27.3	4.5	4.8	4.0	3.1	3.9	
Jacques Martin Capital Stable	27.8	4.0	4.0	2.0	1.0	2.5	250
Sovereign ESP Conservative	1.1	4.0	4.7	3.2	3.1	3.5	
Sovereign ESP Global Fixed Interest	0.3	4.0	4.1	2.8	4.7	4.3	
Sovereign SERP Sovereign Conservative	1.3	3.8	3.7	2.7			
Asteron Deposit Fund	20.3	3.6	4.3	4.3	4.3	4.2	
Mercer Cash	12.0	3.4	3.0	3.2	3.7	3.7	
Tower Focus Cash	36.2	3.4	3.3	3.3	3.4	3.4	305
Jacques Martin Cash Management	14.0	3.4	3.8	4.0	4.3	4.3	250
Tower BNZ Conservative	4.4	3.3	3.4	1.3	1.5	1.8	293
AMP Capital Assured	109.9	3.3	3.7	4.1	4.4	4.5	387
WestpacTrust Accumulation	50.0	3.1	3.1	3.1	3.5	3.5	60
Sovereign SERP Cash	1.9	3.1	3.0	3.0			
Tower Focus Fixed Income	22.9	2.9	3.4	3.6	3.9	3.9	302
Tower Capital Preservation	41.4	2.5	2.5	2.5	3.4	4.2	293
Sovereign SERP Balanced	11.4	2.4	2.9	1.3			
Sovereign SERP Conservative	1.0	1.7	2.4	1.5			
All Conservative Funds	496.8	3.6	3.7	3.2	3.2	3.7	
Total Funds	2,740.4	7.1	6.4	2.7	0.3	2.2	
Cash Benchmark (Net)		3.9	3.8	3.8	3.8	3.9	
CPI		2.5	2.0	2.2	2.3	2.4	

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