

Master Trust Survey Results to 30 September 2006

Investment Returns

Over the rolling 12 months to 30 September, diversified growth funds returned 10.9% (16.1%) balanced funds 9.2% (12.3%) and conservative funds returned 5.2% (5.9%).

As might be expected at a time of reasonable share market returns, the single sector aggressive funds performed even better with a net 12 month return of 14.6%, although the potential variability of return and downside risks of these funds may not suit most members.

The overall average 12-month return across all funds was 9.1% (12.3%) p.a. – the figures in brackets being those for the preceding quarter.

With the slight fall in the annual inflation rate from 4.0% in 3.5%, these are still good returns in real terms, with balanced funds for example providing a real annual return of 5.7%.

Economic Commentary

As the fall in oil prices takes some of the inflationary pressure off western economies, (U.S. fuel prices have fallen by close to 30% in the last two months) reserve bank governors have responded by holding interest rates steady while at the same time warning of future rises if inflation is not contained.

As we write this the Reserve Bank of New Zealand has surprised many economists by holding the OCR at 7.25% in October, although the fall in the annual inflation rate from 4.0% in June to 3.5% in September was an indication that the CPI was moving closer to the Bank's upper target limit of 3%.

Meanwhile in the U.S., the Federal Reserve has held the federal funds rate at 5.25%, while at the same time observing that the economy had slowed, in part because of lower consumer demand resulting from uncertainty around their slowing housing market.

While it has long been an axiom that the U.S. is the main driver of world economic growth - and that U.S. slowdowns are felt worldwide - it is now Asian demand which is starting to drive world growth.

Asian nations in total still consume less than the U.S. However Asian consumption is now growing at about twice that of the U.S.'s 3%, with the higher rate being expected to continue for some years as the ordinary citizens move from a low standard of living by Western standards into a middle class which expects to have the consumer goods which we take for granted.

KiwiSaver

The KiwiSaver legislation has now been passed, including some very welcome changes from earlier proposals, and a start date pushed back three months to 1 July 2007. The most unexpected has been the exemption from SSCWT on employer contributions of up to the smaller of 4% of salary or the member's own contribution.

The Government is considering extending this tax exemption to existing superannuation schemes provided the employers contributions are locked-in to age 65. Since most employees leave their employer prior to retirement, having the funds locked-in may not suit everyone. Until this is decided one way or the other it will be difficult for employers with existing schemes to decide what to do about KiwiSaver.

Another intriguing change was to allow up to half of the employees contributions to KiwiSaver to be applied to pay off the mortgage. So if an employee were to contribute 4% and the employer generously matched that (possibly by salary sacrifice or in lieu of future salary increases) then 2% of the employees contributions could be diverted towards the mortgage and the employer contributions would effectively be tax-free. These changes make KiwiSaver definitely worth considering by employers and employees alike.

The Inland Revenue is now preparing an extensive communications campaign to educate both employers and employees about KiwiSaver, and to assist KiwiSaver scheme providers with preparing their own material. For information go to the official KiwiSaver website: www.kiwisaver.govt.nz.

Regulatory Change

The tax changes to PIE's and offshore investments are still being worked on. Another important issue is the proposed changes to the Securities Act covering a review of Financial Products and Providers. Submissions to the Ministry of Economic Development on nine different areas are required by 1 December 2006.

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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							
AMP Lifesteps Establishment	4.4	12.90	14.00	12.80	11.90	6.20	167
AMP High Equity	174.7	12.50	13.90	12.90	12.10	6.30	603
ASB SMT Growth	45.3	12.30	13.10	11.80	10.50	6.00	
AMP Lifesteps Growth	10.3	11.50	12.50	11.60	10.80	5.90	209
AXA SMT Multi-Mgr High Growth	82.7	11.50	12.60	11.00	9.30	5.20	
Tower BNZ Dynamic Growth	8.6	11.30	10.90	9.10	6.50	3.50	308
Tower Growth	5.2	11.10	11.60	10.50	9.60	5.90	308
Jacques Martin Growth Fund	54.4	10.00	11.40	10.10	8.70	4.50	255
WestpacTrust Dynamic	137.7	9.70	11.50	9.50	8.50	4.00	60
Sovereign ESP Special Values	1.2	9.20	10.60	8.30	7.80	4.50	
Sovereign SERP Growth	5.3	9.20	9.40	7.20	6.10	2.70	
Sovereign SERP Sovereign Dynamic Growth	3.6	9.10	10.50	8.40	7.00	4.10	
Mercer Growth	84.1	9.00	10.80	8.80	7.90	5.20	65
All Growth Funds	617.4	10.90	12.30	10.80	9.70	5.20	

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Balanced Funds							
Tower ING SIL Balanced Fund	5.7	11.10	12.60	12.20	10.80	7.90	308
ING SIL Balanced	309.1	10.90	12.80	12.20	10.70	7.70	15
AMP Lifesteps Progression	12.1	10.10	10.90	10.00	9.40	5.40	196
ASB SMT Balanced	96.5	10.10	10.90	9.70	8.80	5.50	
Tower BT Managed Growth	18.8	9.60	11.90	12.20	10.30	7.30	308
Tower Balanced	122.4	9.50	9.10	8.70	7.80	6.10	308
Aventine's SuperLife Aim60	286.7	9.50	10.40	9.00	8.50	5.40	128
Jacques Martin Balanced	92.0	8.90	10.10	8.80	7.60	4.90	255
AMP Lifesteps Consolidation	11.4	8.90	9.50	9.00	8.40	5.20	152
AMP Balanced	320.1	8.90	9.60	8.80	8.10	4.60	635
WestpacTrust Balanced	165.5	8.80	9.80	8.20	7.80	4.40	60
Tower ANZFM Balanced	4.6	8.50	9.70	8.90	8.30	6.10	308
AMP ING Balanced	83.8	8.50	11.30	10.80	9.50	6.80	513
AMP ASB Balanced	10.1	8.40	9.40	8.30	7.90	4.90	295
AXA SMT Multi-Mgr Balanced	227.4	8.40	9.70	8.60	7.30	4.70	
AMP Tower Balanced	80.2	8.30	8.40	7.90	7.10	5.40	457
Sovereign SERP Balanced	20.0	8.20	8.60	6.50	5.70	4.20	
Sovereign SERP Sovereign Managed Growth	5.5	7.80	9.50	8.00	7.10	4.80	
Sovereign ESP Balanced Growth	4.9	7.70	9.20	7.60	7.30	4.70	
AMP BT	86.8	7.60	9.50	8.20	7.30	5.20	434
Asteron Managed Fund	46.9	7.50	10.70	9.70	9.10	7.20	
Tower BNZ Balanced Growth	8.2	6.90	7.90	6.80	5.60	3.30	308
Jacques Martin Asset Growth	18.2	6.50	8.80	7.60	7.00	4.60	255
All Balanced Funds	2,036.8	9.20	10.30	9.30	8.40	5.60	

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Conservative Funds							
ASB SMT Conservative	19.8	8.00	8.80	7.80	7.20	5.20	
AMP Lifesteps Stability	10.1	7.50	8.10	7.30	6.90	4.60	105
AMP Lifesteps Maturity	1.4	6.20	6.60	6.10	5.70	4.20	33
Jacques Martin Capital Stable	31.4	6.20	6.80	5.80	5.40	3.90	255
AMP Capital Stable	58.5	6.10	6.70	6.20	5.80	4.40	348
Mercer Conservative	33.9	6.00	7.30	6.40	6.10	5.30	65
Sovereign ESP Conservative	0.8	5.90	6.10	5.40	5.40	4.40	
Sovereign SERP Sovereign Conservative	1.8	5.60	6.50	5.60	5.10	4.20	
Sovereign SERP Conservative	2.3	5.60	5.50	4.30	4.00	3.10	
AXA SMT Multi-Mgr Conservative	91.3	5.50	6.40	5.70	5.10	4.20	
Tower Capital Preservation	44.9	5.00	4.30	3.70	3.40	3.20	308
Asteron Deposit Fund	17.2	4.70	4.60	4.20	4.40	4.40	
Tower BNZ Capital Enhanced	4.7	4.70	4.50	4.10	3.90	2.60	308
WestpacTrust Accumulation	35.3	4.00	4.00	3.70	3.50	3.40	60
AMP Capital Assured	123.0	4.00	3.60	3.60	3.70	3.90	409
All Conservative Funds	476.4	5.20	5.50	5.00	4.70	4.10	

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Single Sector Aggressive							
Aventine's SuperLife Property	13.5	20.70	23.60	18.30	15.10	14.30	128
Tower Focus International Shares	26.2	20.10	18.90	15.00	13.60	8.90	308
Aventine's SuperLife Oseas Shares Unhedged	100.1	18.70	15.90	10.20	7.10	-0.80	128
Tower BT International Shares	7.8	18.40	19.80	18.40	13.80	7.10	308
Aventine's SuperLife Oseas Shares Hedged	21.4	14.80	16.00	13.70	13.80	7.20	128
Sovereign ESP International Equities	0.8	10.70	11.30	7.70	6.70	2.80	
Mercer Shares	17.9	10.40	13.90	11.40	9.90	5.60	65
Sovereign ESP Australasian Equities	0.3	10.00	15.00	14.70	14.80	10.70	
Tower Focus NZ Shares	12.5	4.90	10.90	12.70	12.90	11.60	308
Aventine's SuperLife NZ Shares	37.4	2.30	8.90	11.90	12.50	12.50	128
All Single Sector Aggressive	238.0	14.60	15.30	12.30	10.50	5.30	

Fund Name	Fund Size \$ million	Annual Returns (Net of Tax & Expenses)					No. of Employers
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Single Sector Defensive							
Aventine's SuperLife Cash	43.4	5.00	4.90	4.50	4.40	4.20	128
Sovereign SERP Cash	2.8	4.90	4.80	4.20	3.90	3.70	
Aventine's SuperLife NZ Bonds	45.3	4.80	4.90	4.10	4.20	4.50	128
AXA SMT Cash	36.0	4.80	4.70	4.40	4.00	4.00	
Tower Focus Cash	10.6	4.70	4.50	4.10	3.90	3.70	308
Mercer Cash	17.0	4.60	4.70	4.30	3.80	3.80	65
Jacques Martin Cash Management	15.4	4.40	4.60	4.20	4.20	4.20	255
Tower Focus Fixed Income	8.9	3.80	3.90	3.60	3.70	3.70	308
Aventine's SuperLife Overseas Govt Bonds	15.0	3.50	4.80	4.50	4.60	4.90	128
Sovereign ESP Global Fixed Interest	0.2	3.30	4.00	4.00	4.10	3.30	
Aventine's SuperLife Overseas Non Govt Bonds	10.6	2.70	4.10				128
All Single Sector Defensive	205.1	4.50	4.70	4.10	3.90	4.00	
Total Funds	3,573.6	9.00	10.00	8.90	8.00	5.20	
Cash Benchmark (Net)		5.00	4.80	4.50	4.30	4.20	
CPI		3.50	3.50	3.20	2.70	2.70	

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