

Master Trust Survey Results to 30 June 2007

Investment Returns

The returns for the year to June showed an improvement on those for the previous survey (shown in brackets below). Over the last 12 months growth funds returned 7.3% (5.1%) while balanced funds returned 6.1% (4.9%) and conservative funds returned 4.5% (4.3%) after tax and fees.

Economic Commentary

The record high value of the New Zealand dollar (now over US\$0.80) is causing considerable discussion as to just how high it can go and whether anything can be done to stop its rise given the tools available.

With inflation higher than desirable, the Reserve Bank duly raised its interest rate again on 26 July. The Reserve Bank's brief intervention in the market during June was largely symbolic, and possibly counter-productive, if it encouraged Japanese traders to buy the Kiwi dollar while it was cheaper. Dr Bollard suggested this latest tightening could be the last for this round. Whilst we agree with his assessment of the strength of the N.Z. economy, we note that each hike increases the risk of a hard landing.

Just how overvalued a currency is depends of course on how it is measured (which is why there is such a vigorous debate in the U.S. over the true value of the Chinese Yuan). A set of models used by Morgan Stanley suggests the New Zealand dollar is overvalued by 29%.

The New Zealand economy continues to perform well in spite of the high local dollar, thanks in large part to booming international dairy prices as buyers try to lock-in supplies while they can. The Australian drought is having its effect. Australia and New Zealand together supply one-third of global milk exports, so any interruption to Australia's share can have a major effect on prices, as has happened with the drought related shortages of Australian wheat.

New Zealand has two speeds to its export economy. While agricultural commodities are in high overseas demand, the manufacturing economy is still declining due variously to insufficient investment, Asian competition and the high dollar. New Zealand manufacturers, including Fisher & Paykel, are now increasingly moving manufacturing operations to Asia.

Import prices are of course benefiting from the high dollar. Local motorists in particular have been largely isolated from the effects of the current high international oil prices. If the N.Z. dollar was to fall sharply then substantial fuel price increases could be expected.

The liquidity arising from the flood of incoming money from overseas is also now being increasingly seen as a major cause of private debt, as businesses and banks compete for borrowers. The social effects of high levels of private debt (and rising interest rates), falling house affordability, increasing income disparity and the inflationary effect of excessive consumption are clearly all concerns to a Labour Government.

House prices have continued to rise, although there are indications they have started to stabilise as higher interest rates take effect. The prospect of tax cuts could bring buyers back into the market next year – which is why Dr Cullen would prefer to offer locked in bonuses to workers' KiwiSaver accounts. This makes the uptake to KiwiSaver critical to the short-term state of the economy.

Superannuation News

The Budget included a number of additional incentives to prospective KiwiSaver members. There was, as expected, some tax relief (of up to \$20 per week) on member contributions. Less expected was the intention to require a compulsory 1% employer contribution from 1 April 2008, rising by 1% per year until it reaches 4%, with a tax refund of up to \$20 per week partially compensating for the added cost. The reduction in the company tax rate from 33 to 30 cents can also be considered a quid pro quo for the cost of KiwiSaver.

Allied to this will be some changes to contribution rates (employer contributions will no longer be counted towards the minimum 4% contribution rate, for example) so transition arrangements will be required after 1 April.

While we welcome the philosophy behind these changes, we consider that some are poorly framed and expect that they will be further changed before the legislation is finally passed. Of more concern to us is the manner in which successive changes to KiwiSaver are making it much more complex, with technicalities which require a specialist understanding to manage. This is quite different to the original intention which was to keep the options simple and easily understood. Employers will not welcome Kiwisaver if it creates day-to-day operational difficulties for payroll and HR staff.

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Eriksen's Master Trust Survey Results to 30 June 2007

| 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 High Equity | 195.0 | 11.50 | 14.60 | 12.20 | 13.10 | 9.40 | 598 |
| AMP Lifesteps Establishment | 7.0 | 11.40 | 14.70 | 12.20 | 13.00 | 9.30 | 186 |
| AMP Lifesteps Growth | 15.8 | 9.90 | 12.90 | 10.90 | 11.60 | 8.50 | 224 |
| ASB SMT Growth | 69.9 | 8.50 | 12.30 | 10.50 | 11.20 | 8.30 | |
| Sovereign SERP Sovereign Dynamic Growth | 4.2 | 8.30 | 10.60 | 9.30 | 8.90 | 5.90 | |
| Sovereign SERP Growth | 6.4 | 6.50 | 9.70 | 7.20 | 7.40 | 5.10 | |
| Tower FuturePlan Growth | 5.1 | 5.70 | 11.30 | 9.40 | 10.30 | 7.30 | 177 |
| Aon Growth | 3.3 | 5.60 | 9.70 | 8.70 | | | 22 |
| Mercer Growth | 92.3 | 5.60 | 9.70 | 8.20 | 8.50 | 6.50 | 66 |
| AXA SMT Multi-Mgr High Growth | 96.5 | 4.30 | 10.80 | 9.60 | 10.00 | 6.70 | |
| WestpacTrust Dynamic | 136.8 | 3.90 | 9.30 | 8.90 | 9.00 | 6.10 | 60 |
| Tower LifeSaver AXA - FLP - Dynamic Growth | 7.6 | 2.60 | 8.30 | 7.10 | 7.00 | 4.60 | 177 |
| All Growth Funds | 639.7 | 7.30 | 11.70 | 10.10 | 10.60 | 7.50 | |

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| | | 1 Year | 2 Year | 3 Year | 4 Year | 5 Year | |
| Balanced Funds | | | | | | | |
| AMP Lifesteps Progression | 22.2 | 8.60 | 11.10 | 9.50 | 10.00 | 7.50 | 223 |
| AMP Balanced | 335.4 | 8.10 | 10.10 | 8.60 | 8.90 | 6.60 | 642 |
| AMP Tower Balanced | 91.4 | 8.00 | 9.40 | 8.60 | 0.50 | 0.50 | 452 |
| Sovereign SERP Sovereign Managed Growth | 6.4 | 7.70 | 8.80 | 8.60 | 8.10 | 6.20 | |
| Tower ILS Balanced | 115.0 | 7.50 | 9.80 | 9.00 | 8.70 | 7.10 | 177 |
| AMP ASB Balanced | 13.7 | 7.40 | 9.50 | 8.10 | 8.30 | 6.40 | 310 |
| Aventine's SuperLife Aim60 | 507.5 | 7.30 | 10.00 | 8.80 | 8.90 | 6.80 | 130 |
| Tower ANZFM Balanced | 3.8 | 7.20 | 9.00 | 8.70 | 8.60 | 7.20 | 177 |
| ASB SMT Balanced | 147.5 | 7.20 | 9.90 | 8.80 | 9.20 | 7.20 | |
| AMP Lifesteps Consolidation | 23.1 | 7.20 | 9.40 | 8.30 | 8.80 | 6.80 | 176 |
| Asteron Managed Fund | 41.9 | 6.40 | 7.80 | 9.00 | 8.90 | 7.80 | |
| Sovereign SERP Balanced | 22.1 | 6.00 | 8.40 | 7.20 | 6.30 | 5.50 | |
| Aon Balanced | 22.1 | 4.90 | 8.10 | 7.50 | | | 32 |
| Mercer Active Balanced | 65.0 | 4.80 | 8.30 | 7.80 | 8.60 | 7.10 | 66 |
| ING SIL Balanced | 326.4 | 4.70 | 9.20 | 9.70 | 10.40 | 8.20 | 14 |
| AMP ING Balanced | 98.8 | 4.70 | 9.00 | 8.90 | 9.80 | 7.60 | 512 |
| AMP BT | 93.8 | 4.20 | 8.20 | 8.00 | 7.80 | 6.00 | 432 |
| AXA SMT Multi-Mgr Balanced | 260.5 | 4.20 | 8.30 | 7.90 | 7.80 | 5.80 | |
| Tower ING SIL Balanced | 5.8 | 4.00 | 8.40 | 8.70 | 9.50 | 7.30 | 177 |
| Tower LifeSaver Balanced Growth | 21.4 | 4.00 | 8.50 | 9.70 | 10.50 | 8.20 | 177 |
| WestpacTrust Balanced | 160.9 | 3.20 | 7.90 | 7.70 | 7.70 | 5.90 | 60 |
| Tower LifeSaver AXA - FLP - Balanced Growth | 8.0 | 2.70 | 6.40 | 6.00 | 6.20 | 4.60 | 177 |
| All Balanced Funds | 2,392.8 | 6.10 | 9.30 | 8.60 | 8.50 | 6.50 | |

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|--|-------------------------|--|-------------|-------------|-------------|-------------|---------------------|
| | | 1 Year | 2 Year | 3 Year | 4 Year | 5 Year | |
| Conservative Funds | | | | | | | |
| AMP Lifesteps Stability | 15.6 | 5.80 | 7.70 | 7.00 | 7.10 | 5.70 | 121 |
| Tower Capital Preservation | 30.6 | 5.80 | 5.20 | 4.60 | 4.00 | 3.70 | 177 |
| ASB SMT Conservative | 38.1 | 5.70 | 7.40 | 7.20 | 7.10 | 6.10 | |
| Sovereign SERP Sovereign Conservative | 2.1 | 5.00 | 5.50 | 5.90 | 5.40 | 4.70 | |
| WestpacTrust Accumulation | 33.9 | 4.90 | 4.40 | 4.30 | 3.80 | 3.80 | 60 |
| Tower LifeSaver AXA - FLP - Capital Enhanced | 4.1 | 4.80 | 4.70 | 4.50 | 4.20 | 3.70 | 177 |
| Asteron Deposit Fund | 21.8 | 4.80 | 4.70 | 4.60 | 4.30 | 4.50 | |
| Sovereign SERP Conservative | 2.8 | 4.60 | 5.60 | 4.80 | 4.20 | 4.00 | |
| AMP Capital Stable | 70.7 | 4.50 | 5.90 | 5.80 | 5.80 | 5.00 | 352 |
| AMP Lifesteps Maturity | 1.9 | 4.40 | 6.00 | 5.70 | 5.80 | 4.80 | 41 |
| AMP Capital Assured | 113.4 | 4.30 | 4.10 | 3.80 | 3.70 | 3.80 | 379 |
| Aon Conservative | 11.7 | 4.20 | 5.30 | 5.80 | | | 29 |
| Mercer Conservative | 34.1 | 4.20 | 6.10 | 6.10 | 5.80 | 5.50 | 66 |
| AXA SMT Multi-Mgr Conservative | 99.9 | 3.80 | 5.30 | 5.60 | 5.20 | 4.60 | |
| Aon Capital Stable | 2.2 | 3.20 | 3.60 | 4.40 | | | 19 |
| All Conservative Funds | 483.1 | 4.50 | 5.30 | 5.20 | 4.80 | 4.40 | |

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| | | 1 Year | 2 Year | 3 Year | 4 Year | 5 Year | |
| Single Sector Aggressive | | | | | | | |
| Aventine's SuperLife NZ Shares | 66.5 | 19.20 | 12.80 | 13.80 | 14.80 | 12.20 | |
| Aventine's SuperLife Oseas Shares Hedged | 85.6 | 17.80 | 17.80 | 14.10 | 14.80 | 10.20 | |
| Tower Focus NZ Shares | 8.9 | 11.70 | 10.70 | 12.40 | 13.00 | 12.20 | 177 |
| Aventine's SuperLife Property | 23.8 | 10.80 | 15.90 | 18.60 | 15.90 | 13.70 | |
| Tower LifeSaver Equity | 25.4 | 8.10 | 17.40 | 13.80 | 14.20 | 9.70 | 177 |
| Mercer Shares | 20.7 | 6.80 | 13.00 | 10.70 | 11.30 | 7.90 | 66 |
| Tower BT International Shares | 7.1 | -1.80 | 11.20 | 14.90 | 14.00 | 8.40 | 177 |
| Aventine's SuperLife Oseas Shares Unhedged | 103.4 | -4.20 | 11.50 | 7.40 | 8.30 | 3.00 | |
| All Single Sector Aggressive | 341.4 | 9.00 | 14.10 | 12.10 | 12.60 | 8.50 | |

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|--|-------------------------|--|-------------|-------------|-------------|-------------|---------------------|
| | | 1 Year | 2 Year | 3 Year | 4 Year | 5 Year | |
| Single Sector Defensive | | | | | | | |
| Aventine's SuperLife Cash | 78.1 | 5.10 | 5.00 | 4.90 | 4.60 | 4.40 | |
| Sovereign SERP Defensive | 2.9 | 5.10 | 5.10 | 4.80 | 4.30 | 4.10 | |
| AXA SMT Cash | 34.1 | 4.70 | 4.80 | 4.70 | 4.30 | 4.20 | |
| Mercer Cash | 19.5 | 4.60 | 4.60 | 4.60 | 4.20 | 4.00 | 66 |
| Tower LifeSaver Preservation | 3.2 | 4.20 | 4.40 | 4.30 | 4.00 | 3.90 | 177 |
| Aventine's SuperLife Overseas Non Govt Bonds | 15.9 | 3.90 | 2.30 | 4.10 | | | |
| Aventine's SuperLife Overseas Govt Bonds | 52.8 | 3.90 | 2.70 | 4.50 | 3.60 | 4.70 | |
| Aventine's SuperLife NZ Bonds | 81.4 | 3.70 | 4.30 | 4.50 | 3.50 | 4.40 | |
| Tower Focus Fixed Income | 6.6 | 2.40 | 3.00 | 3.50 | 3.00 | 3.70 | 177 |
| All Single Sector Defensive | 294.5 | 4.30 | 4.10 | 4.60 | 3.80 | 4.10 | |
| Total Funds | 4,151.5 | 6.20 | 9.20 | 8.50 | 8.40 | 6.40 | |
| Cash Benchmark (Net) | | 5.20 | 5.10 | 4.90 | 4.60 | 4.40 | |
| CPI | | 2.00 | 3.00 | 2.90 | 2.80 | 2.50 | |

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