

Master Trust Survey Results to 30 June 2008

Investment Returns

The returns for the year to 30 June continued the decline seen in the previous quarter, reflecting the serious downturn in investment markets caused by the loss of bank liquidity and sharply slowing world economies. Over the 12 months, growth funds returned -10.8% (-6.2%), balanced funds returned -4.8% (-2.7%), while conservative funds returned 1.6% (2.0%) after tax, expenses and fees were deducted (the previous quarter's rolling twelve months are shown in brackets). With inflation for the year being 4.0% real returns are now negative.

Economic Commentary

A year on from the beginning of the U.S. sub-prime crisis, nervous investors are unsure whether the global credit crunch is a short-term downturn in the global economy or the beginning of a severe economic depression lasting some years. After some initial optimism it looks relatively long-term because of the combination of international factors.

These include the banking and credit crisis, a housing crisis, an upsurge in oil and commodity prices, food shortages, the rise of the emerging nations and falling share markets. We expect the structural changes necessary to correct these to continue for some time, with it being at least 2009 before investment markets start to recover.

The current shortage of credit, as banks limit their risk, has slowed housing markets and consumer spending, with the result that most developed countries are struggling to fight off recession. The credit squeeze in New Zealand has been aggravated by the widespread collapses of finance firms. Other investment managers have prudently closed their funds to redemptions such as AXA and Guardian Trust with their mortgage funds and AMP Capital's property fund. It is important to distinguish between these closures where the underlying assets are sound and the collapse of finance companies.

At present banks are too worried to lend to each other, let alone to offer consumer credit or business loans. After more than a decade of cheap money, the Western world must quickly adapt to this lack of liquidity.

Exacerbating the collapse in the banking and credit markets has been intense international competition for food and mineral commodities (especially oil) which has pushed retail prices up sharply. The

resulting inflation is a headache for central banks which have the quandary of deciding whether to restimulate their economies, or to limit inflation.

The change from strong growth to economic slowdown has brought some high growth economies to a sudden halt. The high growth of the Celtic Tiger (Ireland) has, for example, long made it a favourite of pro business pressure groups in New Zealand. However, Ireland's growth rate is expected to fall to -0.4% this year; largely on the basis of a fall in new construction from 75,000 to 30,000 homes. This may put their public finances into the red by an amount likely to exceed E.U. guidelines.

Superannuation News

The number of KiwiSaver members has topped 750,000! More importantly, we now consider New Zealand to have the second best retirement savings policy after Singapore. The combination of universal New Zealand Superannuation, the Guardians of New Zealand fund underpinning its expected cost increases and KiwiSaver provides a sound platform for the future unless subsequent politicians meddle.

Eriksen's Conference

This year's conference will be held at the Intercontinental Hotel in Wellington on Monday 10 November. The theme is "Will raising the bar pull us out of the rubble?" Mark the date in your diaries now.

Eriksen's News

Eriksen's Australian operation has been acquired by our Australian consortium partner, Bendzulla Actuarial Pty Limited. We will continue to work with Graham Osborn and the Sydney team under our existing strategic alliance with Bendzulla Actuarial. There will be no change to the services provided by Eriksens in N.Z. from our offices in Auckland and Wellington, headed by Jonathan Eriksen and Peter Cosseboom respectively.

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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							
Sovereign SERP Sovereign Dynamic Growth	1.2	-4.5	1.7	5.3	5.7	6.1	
AMP Lifesteps Growth	24.4	-5.1	2.2	7.1	7.1	8.4	
Aon Growth	3.8	-5.1	-0.1	5.1			
AMP Lifesteps Aggressive	7.7	-7.1	1.8	7.5	7.5	9.0	
AMP High Equity	190.0	-7.1	1.8	7.5	7.5	9.2	599
Mercer Growth	81.7	-8.9	-1.9	3.1	3.7	4.7	
Tower LifeSaver Growth	15.0	-9.2					166
ASB SMT Growth	80.6	-9.6	-1.0	4.4	5.1	6.6	
Sovereign SERP Growth	2.3	-9.7	-1.9	2.8	2.7	3.7	
AXA SMT Multi-Mgr High Growth	96.9	-13.5	-5.0	2.1	3.3	4.9	
WestpacTrust Dynamic	111.1	-19.2	-8.6	-1.4	0.9	2.5	
All Growth Funds	614.6	-10.8	-2.1	3.9	4.7	6.2	

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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Fund Name	Fund Size	Annual Returns (Net of Tax & Expenses)					No. of Employers
		\$ million	1 Year	2 Year	3 Year	4 Year	
Balanced Funds							
AMP Tower Balanced	100.8	0.2	4.0	6.2	6.4	6.4	449
Tower Lifesaver Balanced	157.6	-0.1	3.7	6.4	6.7	6.9	166
AMP Lifesteps Moderate Balanced	50.8	-1.1	2.9	6.1	6.1	6.9	
Sovereign SERP Sovereign Managed Growth	1.3	-2.3	2.6	5.0	5.8	5.9	
Aon Balanced	22.6	-2.7	1.1	5.1			
AMP Lifesteps Balanced	42.7	-2.7	2.8	6.7	6.7	7.6	
AMP Balanced	320.4	-2.9	2.5	5.8	5.8	6.6	627
AMP ASB Balanced	24.0	-4.7	1.2	4.9	5.0	5.8	286
Aventine's SuperLife Aim60		-5.5	0.7	4.6	5.0	5.9	130
ASB SMT Balanced	183.4	-5.6	0.6	4.5	5.0	6.0	
AMP ING Balanced	137.6	-5.6	-0.6	4.8	5.8	7.2	599
Sovereign SERP Balanced	7.2	-6.7	-0.5	3.1	3.5	3.5	
Mercer Active Balanced	76.1	-6.7	-1.1	3.0	4.0	5.4	
WestpacTrust Balanced	125.6	-8.0	-2.9	2.1	3.4	4.3	
AMP Tyndall Balanced (formerly BT balanced)	88.1	-8.1	-2.2	3.0	4.1	4.7	425
AXA SMT Multi-Mgr Balanced	281.2	-8.5	-2.4	2.4	3.5	4.3	
All Balanced Funds	1,619.2	-4.8	0.5	4.5	5.0	5.8	

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Conservative Funds							
Aon Capital Stable	2.2	6.2	5.2	5.1			
Tower Capital Preservation	25.3	4.5	5.2	5.0	4.6	4.1	166
WestpacTrust Accumulation	33.8	4.0	4.0	3.9	4.0	3.7	
AMP Capital Assured	112.9	3.2	3.7	3.6	3.5	3.5	408
Sovereign SERP Sovereign Conservative	0.8	3.1	4.0	4.7	5.2	4.9	
AMP Capital Stable	79.4	2.7	3.6	5.1	5.2	5.4	339
AMP Lifesteps Conservative	3.8	2.6	3.5	5.0	5.1	5.2	
Aon Conservative	6.5	2.4	3.3	4.8			
Tower LifeSaver Conservative	4.6	1.4					166
AMP Lifesteps Moderate	36.4	1.0	3.3	5.6	5.7	6.0	
Mercer Conservative	35.3		2.0	4.0	4.6	4.6	
AXA SMT Multi-Mgr Conservative	100.9	-0.6	1.6	3.3	4.0	4.0	
ASB SMT Conservative	47.2	-1.3	2.2	4.5	5.0	5.4	
Sovereign SERP Conservative	0.9	-2.1	1.2	3.0	3.0	2.9	
All Conservative Funds	489.7	1.6	3.0	4.2	4.3	4.4	

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Single Sector Aggressive							
Superlife Australian Shares	20.5	1.9					130
Aventine's SuperLife Oseas Shares Hedged	75.9	-11.1	2.3	7.2	7.2	9.1	130
Aventine's SuperLife Oseas Shares Unhedged	100.9	-12.4	-8.4	2.9	2.1	3.8	130
Tower LifeSaver Equity	24.4	-14.6	-3.9	5.6	5.9	7.8	166
Mercer Shares	17.0	-16.0	-5.3	2.4	3.3	5.2	
Aventine's SuperLife Property	19.0	-21.7	-6.9	1.7	6.9	7.2	130
Tower Focus NZ Shares	6.8	-25.1	-8.5	-2.8	1.6	4.1	166
Aventine's SuperLife NZ Shares	41.8	-26.4	-6.6	-2.4	1.9	4.9	130
All Single Sector Aggressive	306.3	-14.3	-4.3	3.0	3.9	5.6	

Fund Name	Fund Size \$ million	Annual Returns (Net of Tax & Expenses)					No. of Employers
		1 Year	2 Year	3 Year	4 Year	5 Year	
Single Sector Defensive							
Aventine's SuperLife Overseas Govt Bonds	58.8	9.4	6.6	4.9	5.7	4.7	130
Aventine's SuperLife Cash	103.8	5.9	5.5	5.3	5.2	4.9	130
Tower LifeSaver Preservation	19.8	5.5	4.9	4.8	4.6	4.3	166
Mercer Cash	37.9	5.3	4.9	4.8	4.8	4.4	
Aventine's SuperLife Overseas Non Govt Bonds	20.9	5.1	4.5	3.2	4.3		130
Tower Focus Fixed Income	6.6	4.9	3.6	3.6	3.8	3.4	166
AXA SMT Cash	58.9	4.0	4.4	4.5	4.5	4.3	
Aventine's SuperLife NZ Bonds	91.6	3.7	3.7	4.1	4.3	3.6	130
Sovereign SERP Defensive	0.7	2.5	3.8	4.3	4.2	4.0	
All Single Sector Defensive	398.9	5.5	4.9	4.6	4.8	4.1	
Total Funds	3,428.8	-4.6	0.5	4.2	4.7	5.4	
Cash Benchmark (Net)		5.8	5.5	5.3	5.1	4.8	
CPI		4.0	3.0	3.3	3.2	3.0	

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