ERIKSEN & ASSOCIATES LTD
Actuaries & Business Consultants

Eriksen's Master Trust Survey
Results to 30 September 2010

Investment Returns

The September 2010 quarter saw a considerable improvement over the previous one as investors regained some confidence and the prospect of sovereign defaults receded.

In the last year growth funds returned 4.4%, balanced funds returned 5.6% and conservative funds returned 4.9% after tax, expenses and fees. These still provide satisfying real returns over both the net cash rate of 2.0% and inflation of 1.5%. It will be interesting to see what real returns there are next quarter as higher inflation resulting from the GST increase and other price increases take effect.

Economic Commentary

As much of the developed world attempts to reduce debt and rebuild its balance sheets, spending by governments and consumers has plummeted. At the same time individual countries have looked overseas for increased export sales to provide the revenue and jobs. This worked in the past when recessions were only regional and did not affect the global economy, however this time there is a definite surplus of would be exporters and a shortage of prospective buyers.

As a result we are now seeing wide spread government intervention as individual countries seek to improve their competitiveness in encouraging export markets while discouraging foreigners from selling to their own consumers.

Much of this has involved intervention in currency markets as governments strive to keep their currencies as low as possible, while there have also been moves to establish non-tariff barriers to imports. These events are symptomatic of a breakdown in the global system which promoted trade growth in the late 20th century and are a sign of the extreme stresses being felt which are making individual countries act with a degree of self interest which they have not displayed for several decades.

While many countries have actively tried to stem the rise, the Australians have been notable in their relative lack of concern – due to their somewhat unique situation as a major exporter of minerals and coal to China at a time when export prices are booming. This has resulted in some major changes in relative exchange rates as the U.S. dollar continues to fall, the Yuan stays low, the Yen continues to rise – and the Australian dollar reaches near parity against the U.S. dollar.

Currency volatility has also provided considerable opportunities for arbitrage within financial markets and has contributed to the generally good investment returns during the quarter, even as unemployment stays high and governments continue to cut their spending. This is perpetuating a situation in which the financial markets continue to move independently of real world events in other parts of the economy.

Most Western governments have in recent years considered themselves above overt currency manipulation, especially when a high currency was considered to be a sign of a strong economy which kept inflation lower, encouraged creditor nations to keep lending and allowed consumers to keep borrowing. It was the emerging Asian manufacturing nations which managed to keep their currencies low so as to promote export led economic development. This was acceptable as long as the developing economies were small, but progressively less so as they grew. Now China is unwilling to revalue because of the likely damage to its economy – however the rest of the world considers the Yuan undervalued and damaging to the global economy. This is a kneejerk reaction. In fact China's low costs of production have kept inflation down significantly across the developed world in the past decade or more.

Self interest is not however restricted to Asia – the U.K. has had its own quantitative easing, the Swiss have tried to bring the Swiss franc down (after Euro zone citizens went looking for a safe haven) and the Americans are about to initiate a fresh round of their own quantitative easing – which seems likely to push the U.S. dollar down further while increasing inflation.

Economic strains also bring political and social divisions – as evidenced by the demonstrations in Greece, the unease about immigration in Germany and the U.S., the protests against pension reforms in France and the growing U.S. populism typified by the Tea-Party movement.

Whether this civil unrest can be contained is likely to depend on whether policymakers can drive the global economy back into growth, or whether the current period of slow growth and stagnation will continue indefinitely.

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Eriksen's Conference

Eriksen's 2010 conference was at the Stamford Plaza, Auckland on September 14 where the attendees heard a wide range of views expressed by the lively and at times provocative speakers. Following the extremely positive feedback we are pleased to announce that Eriksens 2011 conference will be held in Wellington on 31 May. Mark the date in your diary now!

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Fund Name	Fund Size	Annualised Returns (Net of Tax & Expenses)					No. of
	$ million	1 Year	2 Year	3 Year	4 Year	5 Year	Employers
Growth Funds							
Aon Growth	5.3	7.0	2.8	-2.4	-0.3	1.8	36
Aventine's SuperLife Aim80	12.3	6.7	2.3	-4.6	-1.2	1.6	122
Tower LifeSaver Growth	22.0	5.6	2.9	-3.8	-1.8		149
ASB SMT Growth	130.6	5.0	1.7	-4.5	-1.1	1.5	
AMP Lifesteps Growth	30.1	4.8	-0.7	-3.9	-0.3	2.2	
AMP High Equity	185.7	4.6	-2.5	-6.3	-1.8	1.2	
AMP Lifesteps Aggressive	7.9	4.6	-2.5	-6.3	-1.9	1.3	
AXA SMT Multi-Mgr High Growth	123.1	4.5	3.3	-6.0	-3.0	-0.2	
Mercer Growth	62.6	3.9	1.5	-5.3	-2.2	-0.1	
WestpacTrust Dynamic	96.2	2.7	1.6	-4.8	-2.4	-0.1	
All Growth Funds	***675.8***	***4.4***	***0.7***	***-5.3***	***-1.9***	***0.7***	

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.
Eriksen & Associates accepts no liability for any errors herein, or any legal or investment 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.

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Fund Name	Fund Size	Annualised Returns (Net of Tax & Expenses)					No. of
	$ million	1 Year	2 Year	3 Year	4 Year	5 Year	Employers
Balanced Funds							
AMP ING Balanced	155.8	6.9	2.7	-0.6	1.1	3.1	
Aventine's SuperLife Aim60	27.5	6.9	4.2	-1.2	1.3	2.9	122
Aventine's SuperLife Trustee60	123.6	6.9	4.6	-0.2	1.7	2.9	122
Aon Balanced	27.2	6.7	4.9	0.5	1.8	3.1	47
AMP Tower Balanced	108.5	6.6	3.7	1.8	3.6	4.5	
AMP ASB Balanced	32.1	6.3	2.5	-0.5	1.6	3.1	
AMP Tyndall Fund Backtested **		6.1	3.1	-0.8	1.2	2.5	
AMP Tyndall Balanced (formerly BT balanced)	89.8	6.1	2.7	-1.7	0.1	1.9	
Tower Lifesaver Balanced	180.8	5.8	3.8	0.7	2.8	4.1	149
AXA SMT Multi-Mgr Balanced	375.6	5.4	4.7	-2.9	-0.7	1.0	
ASB SMT Balanced	307.2	5.4	3.0	-1.6	0.9	2.6	
AMP Lifesteps Balanced	49.7	5.1	1.9	-0.6	1.9	3.8	
AMP Balanced	322.4	5.1	1.9	-0.7	1.8	3.3	
AMP Lifesteps Moderate Balanced	67.5	5.0	2.7	0.7	2.6	4.0	
Mercer Active Balanced	104.4	4.8	2.6	-3.3	-1.0	0.7	
WestpacTrust Balanced	105.9	3.2	2.2	-2.8	-1.0	0.9	
Aventine's SuperLife Ethica	0.5	3.0	4.4				
All Balanced Funds	***2,078.3***	***5.6***	***3.2***	***-1.2***	***1.0***	***2.6***	

* The AMP Tyndall Balanced Fund was managed by BT until 25 June 2008

** The AMP Tyndall Balanced Fund was managed by BT until 25 June 2008, and the returns shown for that fund are a composite of the BT and Tyndall earnings.

Since we have been asked what the actual performance of the Tyndall option would have been had Tyndall managed the fund for the full period these are back tested returns for a hypothetical pure Tyndall fund.

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Conservative Funds							
Aventine's SuperLife Aim30	33.6	7.0	5.7	2.8	3.7	4.3	122
Aon Conservative	12.6	6.6	5.7	3.6	3.7	4.2	43
Aon Capital Stable	4.5	6.2	6.0	5.3	4.8	4.7	22
Mercer Conservative	38.2	6.0	5.1	1.5	2.5	3.2	
Tower LifeSaver Conservative	8.9	5.8	4.6	2.8	2.9		149
ASB SMT Conservative	82.0	5.5	3.9	1.2	2.6	3.7	
AMP Lifesteps Conservative	8.7	5.3	4.9	4.2	4.6	5.0	
AMP Capital Stable	94.2	5.3	4.9	4.2	4.6	5.1	
AMP Lifesteps Moderate	46.9	5.2	3.7	2.6	3.7	4.6	
AXA SMT Multi-Mgr Conservative	138.3	5.0	4.7	1.3	2.1	2.8	
WestpacTrust Accumulation	29.3	3.4	3.6	3.4	3.6	3.7	
AMP Capital Assured	106.8	2.8	2.8	3.2	3.5	3.5	
All Conservative Funds	***603.9***	***4.9***	***4.3***	***2.5***	***3.2***	***3.8***	

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Single Sector Aggressive							
Aventine's SuperLife Gemino	1.1	14.9	4.0	-9.3			
Aventine's SuperLife Oseas Shares Hedged	84.8	9.3	0.9	-8.1	-2.6	0.7	
Aventine's SuperLife Property	5.6	8.3	-3.9	-11.9	-7.0	-2.0	
Aventine's SuperLife NZ Shares	43.9	7.6	7.1	-4.7	0.5	0.9	
Tower LifeSaver Equity	24.2	5.6	0.8	-8.8	-4.5		149
Aventine's SuperLife Oseas Shares Unhedged	56.2	3.9	-5.2	-9.8	-6.7	-2.1	
Aventine's SuperLife Australian Shares	32.2	3.5	5.8	-3.9	5.7		
Tower Focus NZ Shares	7.7	1.9	2.9	-8.3	-3.6	-2.0	149
Mercer Shares	17.3	0.5	-2.0	-11.7	-6.5	-3.3	
All Single Sector Aggressive	***273.0***	***6.1***	***1.0***	***-7.8***	***-2.5***	***-0.4***	

Fund Name	Fund Size	Annualised Returns (Net of Tax & Expenses)					No. of
	$ million	1 Year	2 Year	3 Year	4 Year	5 Year	Employers
Single Sector Defensive							
Aventine's SuperLife Overseas Govt Bonds	55.0	9.7	8.9	9.0	7.8	6.9	
Aventine's SuperLife Overseas Non Govt Bonds	30.4	7.2	9.8	9.0	7.2	6.3	
Aventine's SuperLife NZ Bonds	88.7	7.1	6.6	6.1	5.5	5.3	
Tower Focus Fixed Income	9.4	6.0	5.9	6.0	5.4	5.0	149
AMP Cash	63.1	3.1	3.7				
Tower LifeSaver Preservation	51.9	3.1	3.3	4.1	4.2	4.3	149
Aventine's SuperLife Cash	83.3	2.8	3.2	4.2	4.5	4.6	
Mercer Cash	38.7	2.4	2.5	3.4	3.8	3.9	
AXA SMT Cash	65.0	2.2	2.4	3.0	3.5	3.7	
All Single Sector Defensive	***485.4***	***4.7***	***4.9***	***5.3***	***5.1***	***4.9***	
Total Funds	**4,116.4**	**5.2**	**3.0**	**-1.1**	**1.0**	**2.5**	
Cash Benchmark (Net)		**2.0**	**2.2**	**3.4**	**3.9**	**4.1**	
CPI		**1.5**	**1.6**	**2.7**	**2.5**	**2.7**	

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