

Eriksen's Master Trust Survey Results to 31 December 2010

Investment Returns

Although the investment returns for the final quarter of 2010 maintained their steady levels, the main event was the sharp rise in inflation over the year to 4.0% as the GST and the emissions trading scheme increases took effect.

This reduced the annual real return for growth funds to 0.8%, for balanced funds to 1.0% and for conservative funds to zero, after taxes expenses and fees have been deducted. Given that the net return on cash was only 2.0%, this means that bank deposits lost value in real terms over the last 12 months, which provides a disincentive to savers.

A big question hovers over the level of inflation to be expected in 2011. Although price rises are likely to be contained in the sluggish local economy, rises in the world prices of oil, food and Chinese manufactured goods can be expected to push local costs up.

Economic Commentary

2010 was a better year for the world economy than predicted by many commentators. As the U.S. economy continued its slow recovery, the Eurozone remained intact and double dip recessions were avoided. Locally and elsewhere, the Christchurch earthquake, the Queensland floods and the severe U.K. winter reminded us of the economic effects of natural disasters.

Meanwhile as the emerging BRIC countries continue to boom; inflation and capacity restraints have become their big worries. This has been aggravated by the ready availability of international cheap money. This means that the developing countries now face the spectre of rising prices and the possibility of currency controls and higher interest rates to slow down activity.

Europe has yet to find a solution to the problems of currency union and now appears unable to progress unless the situation becomes so dire that action is unavoidable. The support given to Greece and Ireland has prevented immediate defaults (and saved the skins of German banks) however the repayments will not be affordable in the longer term.

Since they are unable to devalue their currency, the Mediterranean countries are being forced into a deflationary mode which will reduce their wages and prices over time; however this is an extremely painful process and faces widespread public opposition.

In contrast to Europe's austerity, the U.S. has chosen on-going stimulus with the extension of the Bush tax cuts and another \$600 billion of quantitative easing. While this may help growth and reduce the stubbornly high level of unemployment, it is also increasing Federal and

local government indebtedness, making investors more nervous. The continuing partisan skirmishes between the Democrats and Republicans are likely to make policy making less effective now that the Republicans control Congress.

Europe and the U.S. are likely to continue their slow recovery but will each be hampered by their lack of enthusiasm for effective reform, the poor state of their banking systems and low consumer spending. This suggests a sharp downturn in global stock markets and a rise in interest rates at some point this year, coupled with the risk of increased inflation from China as its manufactured goods become more expensive.

NZ Savings Policy

The government and the Savings Working Group have recently said much about the need for New Zealanders to save more. Eriksen supports the need for households and businesses to live and operate within their means. We also feel that some of the discussion has been alarmist. While private debt is high New Zealand's sovereign debt is still relatively low. With our economy in recession, the Government's borrowing is helping us trade out as well as supporting the disadvantaged sectors of society.

If the Government really wishes to encourage savings, we believe that it should use KiwiSaver as its primary vehicle. It is the one non-property based savings vehicle that the public has confidence in. It is in place now, providing a financial nest egg for working people, especially those on lower incomes. Any changes to its benefits will undermine its effectiveness as a savings vehicle. With over 1.6 million New Zealanders already signed up that would be very disappointing.

Eriksen's Conference

This year's conference is to be held at Wellington's Intercontinental Hotel on Tuesday 31 May. We have a strong line-up of speakers so mark the date in your diaries now.

Christchurch

Our heartfelt condolences to the people of Canterbury in their efforts to bounce back. We admire their courage and tenacity. We commiserate with those who have lost loved ones, homes or possessions.

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Fund Name	Fund Size \$ million	Annualised Returns (Net of Tax & Expenses)					No of Employers
		1 Year	2 Year	3 Year	4 Year	5 Year	
Growth Funds							
Aon Growth	5.3	7.1	12.1	-2.0	-1.6	1.1	35
Aventine's SuperLife Aim80	13.5	6.7	11.3	-2.0	-1.6	1.6	123
Tower LifeSaver Growth	23.2	5.6	8.8	-3.7	-2.1		149
Mercer Growth	64.9	5.4	9.8	-3.3	-2.5		
AXA SMT Multi-Mgr High Growth	131.5	5.2	12.1	-3.1	-2.7	0.1	
ASB SMT Growth	138.9	4.6	7.8	-3.9	-2.1	0.8	
AMP High Equity	194.9	4.6	7.6	-6.0	-3.4		
AMP Lifesteps Aggressive	8.3	4.4	7.6	-6.0	-3.5		
AMP Lifesteps Growth	31.6	4.4	6.8	-3.9	-1.9	1.0	
WestpacTrust Dynamic	98.8	3.9	5.8	-3.8	-3.2	-0.3	
All Growth Funds	710.9	4.8	8.5	-4.2	-2.8	0.2	

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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		1 Year	2 Year	3 Year	4 Year	5 Year	
Balanced Funds							
Aventine's SuperLife Trustee60	128.6	6.9	8.8	1.9	1.6	3.4	123
Aon Balanced	28.7	6.4	10.3	0.9	0.9	2.8	47
Aventine's SuperLife Aim60	29.4	6.4	10.1	0.6	0.9	2.9	123
Mercer Active Balanced	106.7	5.5	9.6	-1.8	-1.3	0.7	
Tower Lifesaver Balanced	185.7	5.3	6.9		1.5	3.6	149
AXA SMT Multi-Mgr Balanced	397.1	5.3	10.2	-0.9	-0.8	1.2	
AMP Tower Balanced	112.0	5.2	7.0	-0.2	1.2	3.1	
AMP ASB Balanced	33.5	5.1	7.3	-1.6	-0.4	1.6	
AMP OnePath Balanced Plus	160.3	4.9	7.8	-1.1	-0.3	1.6	
ASB SMT Balanced	326.6	4.8	6.9	-1.4	-0.1	2.0	
AMP Tyndall Fund Backtested **		4.4	6.6	-1.6	-0.6	1.1	
AMP Tyndall Balanced (formerly BT balanced)	89.9	4.4	7.0	-2.4	-1.7	0.4	
AMP Lifesteps Balanced	52.1	4.1	5.9	-1.1	0.3	2.5	
AMP Balanced	331.1	4.1	5.9	-1.0	0.2	2.2	
WestpacTrust Balanced	107.2	4.0	5.3	-2.1	-1.6	0.7	
AMP Lifesteps Moderate Balanced	70.4	4.0	5.3	0.1	1.1	2.8	
Aventine's SuperLife Ethica	0.5	3.7	6.4				
All Balanced Funds	2,160.0	5.0	7.6	-0.8		2.0	

* 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	34.1	6.1	7.3	3.5	3.3	4.2	123
Aon Conservative	13.9	5.8	7.5	3.7	3.2	3.9	43
Mercer Conservative	39.1	5.2	8.5	1.9	2.1	3.0	
ASB SMT Conservative	84.3	5.1	6.0	1.3	2.0	3.2	
Aon Capital Stable	4.8	5.1	5.3	5.0	4.6	4.5	22
Tower LifeSaver Conservative	9.3	4.9	6.1	2.2	2.5		149
AXA SMT Multi-Mgr Conservative	143.9	4.5	6.1	1.9	1.9	2.8	
AMP Lifesteps Moderate	48.6	3.9	4.5	1.9	2.5	3.6	
AMP Lifesteps Conservative	10.2	3.6	3.7	3.5	3.5	4.1	
AMP Capital Stable	99.2	3.6	3.7	3.5	3.5	4.1	
WestpacTrust Accumulation	28.6	3.0	3.1	3.0	3.4	3.5	
AMP Capital Assured	107.7	1.8	1.7	2.1	2.5	2.8	
All Conservative Funds	623.8	4.0	4.9	2.3	2.6	3.3	

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Single Sector Aggressive							
Aventine's SuperLife Gemino	2.4	17.6	22.5	-7.7			149
Aventine's SuperLife Oseas Shares Hedged	94.0	12.6	18.1	-4.0	-2.2	1.4	
Aventine's SuperLife NZ Shares	47.0	9.6	16.3	-2.3	-1.6	2.2	
Tower LifeSaver Equity	26.1	6.8	10.0	-7.0	-4.5	-0.5	
Aventine's SuperLife Property	5.4	6.0	9.3	-8.3	-8.9	-2.6	
Mercer Shares	18.4	3.7	8.3	-8.9	-6.7	-3.2	
Aventine's SuperLife Australian Shares	35.8	3.1	19.2	-0.9	5.1		
Aventine's SuperLife Oseas Shares Unhedged	58.8	2.7	2.2	-6.9	-6.0	-2.5	149
Tower LifeSaver NZ Shares	8.6	1.3	8.7	-7.1	-6.0	-2.0	
All Single Sector Aggressive	296.4	7.5	13.1	-4.7	-2.7	-0.1	

Fund Name	Fund Size \$ million	Annualised 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	53.5	7.0	4.8	7.7	7.2	6.4	149
Aventine's SuperLife Overseas Non Govt Bonds	35.2	5.7	6.0	8.0	6.9	6.0	
Aventine's SuperLife NZ Bonds	92.5	5.6	4.6	5.9	5.1	5.0	
Tower LieSaver Fixed Income	9.8	4.6	3.2	5.7	4.9	4.7	
Aventine's SuperLife Cash	83.4	2.9	2.9	3.9	4.3	4.5	
Mercer Cash	39.2	2.7	2.3	3.2	3.7	3.9	
Tower LifeSaver Preservation	51.8	2.6	2.8	3.7	3.9	4.1	
AMP Cash	64.4	2.2	2.3	3.4			149
AXA SMT Cash	63.4	2.1	2.2	2.8	3.3	3.6	
All Single Sector Defensive	493.2	3.8	3.4	4.7	4.2	4.1	
Total Funds	4,284.4	4.8	7.3	-0.6	0.2	2.0	
CPI		4.0	3.0	3.1	3.1	3.0	
Cash Benchmark (Net)		2.0	2.0	3.1	3.7	4.0	

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