

Eriksen's Master Trust Survey Results to 30 June 2011

Investment Returns

The last quarter was one in which equity markets initially rose but were then affected by concerns over the European debt issues. This fed into increases in the New Zealand and Australian currencies which in turn depressed local unhedged global equities returns.

The increase in the annual inflation rate to 5.3% meant that returns over the last 12 months were more modest in real terms. Growth funds experienced a real return of 3.8%, balanced funds had real returns of 2.2%, while conservative funds showed a negative real return of -0.3%. The real return on the cash benchmark meanwhile was a rather disappointing -3.3% loss in real terms and a continuation the wealth transfer from savers to borrowers.

We note that Westpac have closed their master trust (the group section of the Westpac Retirement Plan). As a result their funds have now been removed from this survey.

Economic Commentary

The current turbulence in global share markets recently is a reaction to investor nervousness to government economic policies on both sides of the Atlantic.

The European debt crisis has arisen from the issues surrounding the options heavily indebted Euro zone countries have when they do not control their own currency. In other circumstances they might hope to devalue their currencies to make their exports more competitive or, if their debt repayments are too onerous, to default on them. However in this case they cannot unilaterally devalue their currency (the Euro), and they are under immense pressure not to default since that would threaten the banking systems of some of their more prosperous fellow Euro zone neighbours.

To date the debtor countries, principally Ireland, Greece, Spain and Portugal, have had to accept additional loans which are conditional on heavy government spending cuts and increased taxation. However these measures have not solved the problems so much as delayed them. Enforced austerity has also caused increased unemployment and social unrest.

As the number of struggling Euro zone countries increases the ability of the other European countries to support them is diminishing and the financial markets are losing confidence that the political will exists to make the hard decisions. Over the last week the ECB further supported Greece and Portugal and bought up Spanish and Italian bonds in a further effort to prop up the European debt markets, however this can only be considered another short term fix.

The U.S. problem is also politically based, in that it represents a fundamental difference between the Republicans who would like to keep taxes low (especially for the well-off) and slash government spending and the Democrats who would like to raise some taxes and have lower spending cuts. This led to the recent acrimonious public debate between the Republican held Congress and the Democrat controlled Senate over the debt ceiling. The possibility that U.S. lawmakers might consider letting the U.S. default on its debt not only unnerved the investment markets but also led Standard and Poors to downgrade the U.S. Governments debt rating from AAA to AA+.

How these and other debt related issues will eventually play out is currently impossible to say, however we cannot see any long-term stability returning to the financial markets until they are addressed.

KiwiSaver

The 2011 Budget made further changes to KiwiSaver which included the halving of the member tax credit rate to a maximum of \$521 per year for the year to 30 June 2012 and beyond: All employer contributions will be taxable from 1 April 2012 and both the minimum employee contribution rate and the compulsory employer contributions rate are to rise from 2% to 3% from 1 April 2013. These changes effectively remove most of the incentives which have made the uptake of KiwiSaver so high. In our opinion the reduced member tax credit provides insufficient incentive to contribute to KiwiSaver considering that the contributions are locked up to 65 if the employer makes traditional superannuation available as well. We therefore anticipate a rise in contribution holidays by existing members and a significantly reduced uptake of new members.

At the same time the Government appears to be trying to raise the KiwiSaver uptake further by auto-enrolling all current workers (with an opt-out provision) who do not already belong. This is a forerunner to compulsory membership.

Our other concern is that the higher member and employer contribution rates may become unaffordable for small and medium sized businesses and low paid employees. KiwiSaver has been extremely successful in making retirement savings achievable for the average worker. It would be tragic if this boost to savings was lost through too much tinkering.

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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							
Aventine's SuperLife Aim80	14.5	13.7	11.4	1.5	-1.6	0.2	121
AXA SMT Multi-Mgr High Growth	136.1	11.1	9.9	0.6	-3.1	-1.6	
Aon Growth	5.8	10.1	10.9	1.5	-0.8	0.4	39
Mercer Growth	66.6	10.0	8.9	-0.2	-2.5	-0.9	
ASB SMT Growth	147.4	9.2	8.3		-2.4	-0.3	
AMP High Equity	191.6	7.6	6.4	-3.9	-4.5	-1.5	
AMP Lifesteps Aggressive	7.7	7.3	6.2	-4.0	-4.5	-1.5	
Tower LifeSaver Growth	24.9	7.1	8.0		-2.4		
AMP Lifesteps Growth	32.6	7.0	6.0	-2.2	-2.7	-0.3	
All Growth Funds	627.2	9.1	8.1	-1.2	-3.2	-1.0	

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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Balanced Funds							
Aventine's SuperLife Trustee60	131.9	11.5	9.5	4.1	1.6	2.3	121
Aventine's SuperLife Aim60	30.2	11.3	9.9	2.8	0.7	2.0	121
AXA SMT Multi-Mgr Balanced	417.0	8.8	8.7	2.0	-0.9	0.1	
Mercer Active Balanced	108.5	8.8	8.7	0.8	-1.2		
Aon Balanced	30.0	8.3	9.3	3.6	1.7	2.3	52
ASB SMT Balanced	351.7	7.9	7.6	1.6	-0.2	1.2	
AMP OnePath Balanced Plus	166.3	7.7	8.2	1.6	-0.2	0.8	
AMP Balanced	331.4	6.4	5.5	0.4	-0.2	1.4	
AMP Lifesteps Balanced	55.3	6.3	5.5	0.4	-0.2	1.5	
AMP ASB Balanced	36.5	6.0	7.1	0.4	-0.9	0.8	
AMP Lifesteps Moderate Balanced	78.5	5.8	5.2	1.1	1.0	2.2	
Tower Lifesaver Balanced	184.8	5.8	6.6	1.8	1.6	2.8	
Aventine's SuperLife Ethica	0.7	5.7	6.3	4.2			
AMP Tyndall Fund Backtested **		5.7	7.0	0.6	-0.7	0.6	
AMP Tyndall Balanced (formerly BT balanced)	91.3	5.7	7.0	0.6	-1.6	-0.5	
AMP Tower Balanced	113.2	4.5	6.5	1.0	1.1	2.5	
All Balanced Funds	2,127.3	7.5	7.4	1.5		1.2	

* 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	7.9	7.7	4.7	3.3	3.8	121
ASB SMT Conservative	89.3	6.8	6.8	3.2	2.5	3.1	
Aon Conservative	15.0	6.5	7.6	5.2	4.0	4.0	47
Mercer Conservative	39.4	5.6	7.2	3.0	2.2	2.6	
AXA SMT Multi-Mgr Conservative	158.9	5.5	6.0	3.1	2.0	2.4	
AMP Lifesteps Moderate	55.8	5.2	4.8	2.5	2.4	3.1	
AMP Lifesteps Conservative	13.5	4.7	4.5	3.8	3.6	3.8	
AMP Capital Stable	109.9	4.7	4.5	3.8	3.6	3.8	
Tower LifeSaver Conservative	11.1	4.4	6.0	3.3	2.9		
Aon Capital Stable	5.2	3.7	5.2	5.0	4.8	4.4	21
AMP Capital Assured	108.8	1.8	1.8	1.9	2.2	2.6	
All Conservative Funds	641.1	5.0	5.2	3.1	2.6	2.9	

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Single Sector Aggressive							
Aventine's SuperLife Oseas Shares Hedged	98.8	23.5	16.7	-0.3	-3.2	0.7	
Aventine's SuperLife NZ Shares	52.7	22.7	18.4	8.7	-1.4	2.3	
Aventine's SuperLife Property	7.2	17.5	16.8	-1.5	-7.0	-3.7	
Aventine's SuperLife Australian Shares	39.5	13.4	9.6	-1.7	-0.8		
Mercer Shares	18.6	13.3	8.1	-4.0	-7.1	-4.5	
Aventine's SuperLife Gemino	2.0	11.0	2.6	-11.5			
Tower LifeSaver Equity	25.7	9.0	8.4	-2.4	-5.6	-3.0	
Tower LifeSaver NZ Shares	7.7	8.1	8.2	1.3	-6.0	-2.7	
Aventine's SuperLife Oseas Shares Unhedged	61.3	5.5	4.1	-4.4	-6.4	-6.0	
All Single Sector Aggressive	313.6	16.2	12.2	-0.2	-3.8	-1.2	

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 NZ Bonds	102.4	5.6	6.7	6.5	5.8	5.4	
Tower LifeSaver Fixed Income	10.9	4.5	5.2	5.9	5.6	5.0	
Aventine's SuperLife Overseas Non Govt Bonds	39.5	4.2	5.3	7.5	6.9	6.3	
Aventine's SuperLife Overseas Govt Bonds	54.4	3.7	5.0	6.2	7.0	6.3	
Aventine's SuperLife Cash	85.8	3.0	2.9	3.5	4.1	4.3	
Mercer Cash	40.2	2.5	2.4	2.8	3.4	3.6	
Tower LifeSaver Preservation	50.6	2.3	2.6	3.1	3.7	3.8	
AMP Cash	65.4	2.2	2.2	2.8			
AXA SMT Cash	60.2	2.2	2.2	2.3	3.0	3.3	
All Single Sector Defensive	509.4	3.4	3.9	4.4	4.2	4.1	
Total Funds	4,218.6	7.5	7.1	1.6	0.1	1.3	
CPI		5.3	3.5	2.9	3.2	3.0	
Cash Benchmark (Net)		2.0	1.9	2.4	3.3	3.6	

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