ERIKSEN & ASSOCIATES LTD
Actuaries & Business Consultants

Eriksen's Master Trust Survey
Results to 31 December 2011

Investment Returns

The fall in the inflation rate during 2011 continued in the December quarter with a rate of -0.3% (1.8% for the calendar year), due largely to lower telecommunication charges, food and continued discounting by retailers.

In the year to 31 December growth funds lost 4.0%, balanced funds lost 0.5% while conservative funds gained 2.1%, reflecting the poor equity performances over the latter part of the year. Conservative investors still managed a small positive real return net of fees and tax.

Economic Commentary

2011 started with rising asset prices and optimism, but ended with flat international share markets and pessimism about the future. While the major driver of this was the European debt crisis, no part of the world performed well.

Looking to 2012, a severe recession in Europe, political change in the Middle East, sluggish growth in the US and a potential slowdown in China and other emerging economies all look possible. A common theme is that recovery in a number of countries is being stymied by poor public policy as governments fail to make the necessary but politically unpopular reforms.

The performance of different countries' stock markets varied dramatically over the year. The Western European and Japanese markets suffered high double digit declines and the Australian market dropped 11%. This was partly a reaction to the strong Australian dollar which caused offshore investors in Australia to sell out to capture their currency gains and domestic Australian investors to invest more in global equities. In contrast the NZX and US markets were relatively flat.

Australia and New Zealand still seem to be relatively well placed compared to the rest of the developed world. Both countries are heavily reliant on commodity exports, which have largely held up due to continued demand from the high growth emerging markets. This has left them vulnerable to the likely slowdown in Asia. The New Zealand economy is still sluggish, with continuing low consumer confidence in spite of a spending boost from the Rugby World Cup. Although the government still seems to have confidence in growth from the Christchurch rebuild there is continuing uncertainty about timing and extent.

The Chinese construction boom has slowed. Falling property prices suggests the speculative activity of recent years may be reducing. Coupled with a fall in export demand from Europe and the US, China may be heading for a slow down. We have more confidence in the Chinese government's ability to manage their economy than most democratically elected leaderships.

KiwiSaver

KiwiSaver was originally based on the concept that New Zealanders could be induced to save long term if the government provided the right incentives. Although these incentives came at a cost to the country they also helped the government achieve wider objectives. Not only did KiwiSaver get people saving; it also helped employers to assist their employees to save, mopped up excess liquidity when consumer spending was high, raised awareness of how savings products work, has provided an additional source of taxation from the additional investment income and helped first home buyers save for a deposit.

The National government however has regarded those incentives as an unnecessary cost at a time when government spending is being cut (even while expressing concern at the NZ's low savings rate). As a result it has progressively reduced the KiwiSaver incentives, thereby making KiwiSaver less attractive to savers.

When the employer contribution becomes taxable on 1 April 2012 the only remaining government incentives would be the $1,000 kick start for new joiners and up to $521 pa member tax credit – for which the member would have to contribute $1043. The benefits would still be locked in until age 65. This will reduce private sector savings by $0.75 billion per year.

In Eriksens opinion KiwiSaver, without the tax exempt employer contribution, does not make much sense. Why lock your funds away to age 65 when regular superannuation schemes allow benefits to be paid on leaving service? Is the loss of liquidity worth $521 per year? The critical issue is whether employers would be willing to contribute 2% to a superannuation scheme without the compulsion of KiwiSaver. Most have already closed their schemes because of the success of KiwiSaver.

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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	5.9	-0.8	2.9	7.5	-1.8	-1.5	41
ASB SMT Growth	147.2	-1.1	1.7	4.8	-3.2	-1.9	
Mercer Growth	62.7	-2.4	1.4	5.6	-3.1	-2.5	
Tower LifeSaver Growth	25.1	-2.9	1.3	4.8	-3.5	-2.3	
Aventine's SuperLife Aim80	13.1	-3.7	1.4	6.1	-2.5	-2.0	125
AMP Lifesteps Growth	30.6	-3.8	0.2	3.2	-3.9	-2.3	
AMP High Equity	178.8	-5.6	-0.7	3.0	-5.9	-3.9	
AXA SMT Multi-Mgr High Growth	131.6	-6.0	-0.6	5.7	-3.8	-3.4	
AMP Lifesteps Aggressive	6.9	-6.0	-0.9	2.8	-6.0	-4.0	
All Growth Funds	***601.9***	***-4.0***	***0.4***	***4.5***	***-4.2***	***-2.9***	

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Balanced Funds							
Aventine's SuperLife Ethica	3.5	1.3	2.5	4.7			
ASB SMT Balanced	358.5	1.0	2.9	4.9	-0.8	0.1	
AMP OnePath Balanced Plus	162.1	0.8	2.8	5.4	-0.6	-0.1	
Aon Balanced	29.8	0.5	3.3	6.8	0.8	0.8	54
Tower Lifesaver Balanced	180.8	0.3	2.8	4.6	0.0	1.3	
AMP Lifesteps Moderate Balanced	80.6	-0.1	1.9	3.5	0.1	0.9	
AMP Tyndall Fund Backtested **	0.0	-0.3	2.0	4.3	-1.3	-0.6	
AMP Tyndall Balanced (fmly BT balanced)	88.2	-0.3	2.0	4.5	-1.9	-1.5	
AMP ASB Balanced	38.0	-0.4	2.4	4.7	-1.3	-0.4	
AMP Balanced	323.0	-0.4	1.8	3.7	-0.9	0.1	
AMP Lifesteps Balanced	56.2	-0.5	1.8	3.7	-0.9	0.1	
Aventine's SuperLife Managed60	126.2	-0.8	3.0	5.5	1.2	1.2	125
Mercer Active Balanced	102.8	-0.8	2.3	6.0	-1.6	-1.2	
AMP Tower Balanced	110.0	-1.0	2.1	4.3	-0.4	0.8	
Aventine's SuperLife Aim60	29.5	-1.1	2.6	6.2	0.1	0.5	125
AXA SMT Multi-Mgr Balanced	427.3	-2.4	1.4	5.8	-1.3	-1.1	
All Balanced Funds	***2,116.5***	***-0.5***	***2.2***	***4.9***	***-0.7***	***0.0***	

* 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							
Aon Capital Stable	5.4	3.6	4.2	4.6	4.6	4.4	21
Aon Conservative	15.4	3.2	4.4	6.0	3.5	3.1	50
AMP Capital Stable	117.8	2.9	3.2	3.4	3.3	3.4	
Tower LifeSaver Conservative	12.7	2.8	3.9	5.0	2.4	2.6	
AMP Lifesteps Conservative	15.6	2.8	3.2	3.4	3.3	3.4	
ASB SMT Conservative	94.2	2.4	3.7	4.8	1.6	2.1	
Aventine's SuperLife Aim30	33.3	2.3	4.2	5.6	3.2	3.1	125
Mercer Conservative	38.4	1.9	3.5	6.3	1.9	2.1	
AXA SMT Multi-Mgr Conservative	178.7	1.8	3.1	4.7	1.9	1.9	
AMP Capital Assured	109.8	1.7	1.8	1.7	2.0	2.4	
AMP Lifesteps Moderate	55.9	1.4	2.6	3.4	1.8	2.2	
Aventine's SuperLife Managed30	1.5	1.3					125
All Conservative Funds	***678.6***	***2.1***	***3.1***	***4.0***	***2.3***	***2.5***	

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Single Sector Aggressive							
Aventine's SuperLife Property	24.3	7.9	6.9	8.9	-4.5	-5.8	
Tower LifeSaver NZ Shares	7.6	-1.8	-0.2	5.1	-5.8	-5.2	
Aventine's SuperLife NZ Shares	50.6	-5.1	2.0	8.7	-3.0	-2.4	
Aventine's SuperLife Oseas Shares Hedged	89.3	-6.3	2.7	9.4	-4.6	-3.0	
Mercer Shares	14.6	-7.1	-1.9	2.9	-8.4	-6.8	
Aventine's SuperLife Oseas Shares Unhedged	56.5	-7.6	-2.6	-1.2	-7.1	-6.3	
Aventine's SuperLife Australian Shares	39.7	-8.0	-2.6	9.3	-2.7	2.3	
Tower LifeSaver Equity	23.3	-8.3	-1.0	3.5	-7.3	-5.2	
Aventine's SuperLife Gemino	3.3	-37.3	-14.1	-2.0	-16.2		
All Single Sector Aggressive	***309.2***	***-5.8***	***0.5***	***6.3***	***-5.1***	***-3.4***	

Fund Name	Fund Size $ million	Annualised Returns (Net of Tax & Expenses) 1 Year	2 Year	3 Year	4 Year	5 Year	No of Employers
Single Sector Defensive							
Aventine's SuperLife NZ Bonds	112.3	7.6	6.6	5.6	6.3	5.6	
Tower LifeSaver Fixed Income	14.0	7.3	6.0	4.6	6.1	5.4	
Aventine's SuperLife Oseas Govt Bonds	57.1	6.1	6.6	5.2	7.3	7.0	
Aventine's SuperLife Oseas Non Govt Bonds	43.4	4.8	5.2	5.6	7.2	6.5	
Aventine's SuperLife Cash	106.6	2.8	2.9	2.9	3.6	4.0	
Mercer Cash	42.1	2.2	2.5	2.3	3.0	3.4	
Tower LifeSaver Preservation	54.4	2.1	2.3	2.5	3.3	3.5	
AMP Cash	72.5	2.0	2.1	2.2	3.1	0.0	
AXA SMT Cash	64.0	1.8	2.0	2.1	2.6	3.0	
All Single Sector Defensive	***566.4***	***4.0***	***3.9***	***3.6***	***4.6***	***4.1***	
Total Funds	***4,230.0***	***-0.4***	***2.2***	***4.6***	***-0.3***	***0.3***	
CPI		***1.9***	***2.9***	***2.6***	***2.8***	***2.9***	
Cash Benchmark (Net)		***1.8***	***1.9***	***2.0***	***2.8***	***3.3***	

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