ERIKSENS ACTUARIAL

Actuaries & Investment Strategists

Eriksen's Master Trust Survey Results to 31 March 2012

Investment Returns

The inflation rate rose 0.5% during the first quarter of 2012, a turnaround from the previous quarter. The calendar year to March 2012 saw an inflation rate rise of 1.6%.

In the year to 31 March growth funds lost 2.3% and aggressive funds lost 3.4%, reflecting the continuing poor performance of growth assets. Balanced funds gained 0.7%, defensive gained 0.6% and conservative funds had positive returns of 2.5%.

With low interest rates throughout the Western World except Australia stock markets reached dizzy heights again at the end of March. So far April has seen modest falls on all markets with Japan dropping more than most.

At some stage later this year we expect another sharp correction to stock markets as investor confidence wanes through higher high oil prices, high unemployment and geo-political events.

Economic Commentary

Our Minister of Finance recently confirmed that New Zealand's fiscal deficit position is worse than forecast. The main reason is because the income tax rate reduction from 39% to 33% has not been offset by the increase in the GST rate from 12.5% to 15.0% because people are still paying off debt rather than spending. This increase in public debt will become progressively harder to manage over time unless the government can deliver the economic growth it has promised. Given the extent of the global financial crisis and its impact on Australia as a result of China slowing we expect growth to be slow and patchy.

The weakness of China's major trading partners (the US and Europe) has meant that it cannot rely on export demand to drive growth, while the high level of previous government stimulus limits the extent to which government spending and directed bank lending can be used. Past lending created asset bubbles in property and shares, which are still being resolved – while low-return government sponsored investment in infrastructure is also not helping growth. China's large foreign exchange reserves are also of little use since liquidating them would probably result in sharp falls in their value and force the renminbi up. China is responding by targeting more international trade in its own currency.

US employment growth started the year well with 200,000 plus jobs having been added each month from December to February, although there were only about 120,000 new jobs added in March. Although the March figure was well below expectations, this was still the best period of job growth since the GFC. The only better quarter was from March to May 2010, when the US government hired many thousands of temporary census workers. While these trends look promising there are also some negative factors. Service industry wages (especially in fast food restaurants) have fallen slightly and may be forced down further during 2012. The fall in the US unemployment rate from 8.3% in February to 8.2% in March, (the lowest since January 2009) also appears to be due to a fall in the number of people actively seeking work. Consumers continue to be unable to support the recovery; their jobs are still insecure, they have to save, home prices are still dropping, and borrowing is out of fashion. What economic growth there has been so far has benefited only those at the top.

The continuing euro zone drama drags on due a lack of effective remedial action. While the possibly most effective resolutions are widely understood, they are not politically palatable, so have been disregarded to date. Of these the most effective is probably one or more countries exiting the euro. Whether those exiting should be the strongest or the weakest is a matter for debate, however the key factor is that those remaining should be able to operate under a common monetary policy. The current situation in which struggling euro countries are unable to devalue their currencies and are instead pressured into devaluing internally is not tenable. The resulting attempts to become more competitive by pushing down wages and prices are a recipe for widespread unemployment, recession and social unrest which leaves those countries too poor to service their debts – and therefore dependent upon increasingly resentful creditor countries. One reason the euro has held together so far is fear of financial and economic chaos on an unprecedented scale. Another is the impulse to defend the political investment in the European project.

KiwiSaver

Whilst the review of default providers is getting media attention the general public appears to have overlooked the financial implications of the government's removal of financial incentives in the last budget.

Someone on the average wage of $50,000 was contributing 2% but received 6% into their KiwiSaver account before the changes. This has now reduced to 4.7%. An employee on $100,000 was receiving a 5% contribution but now gets just 3.9%. Whilst these changes increase the government's tax take, they will reduce the overall level of private sector savings.

Website

We are upgrading our website. Any comments or suggestions are most welcome.

Contact us at:

Auckland	*auckland@eriksensglobal.com*	*Ph 64 9 486 3144*
Wellington	*wellington@eriksensglobal.com*	*Ph 64 4 470 6144*

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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	6.1	3.2	4.5	10.2	1.5	-0.9	40
Tower LifeSaver Growth	26.4	0.4	2.2	8.2	-0.8	-2.0	
Mercer Growth	66.6	-0.9	2.2	9.1	-0.2	-1.8	
AMP Lifesteps Growth	33.0	-1.3	1.7	5.8	-0.6	-4.7	
AMP High Equity	194.4	-2.2	1.4	6.3	-1.7	-6.5	
AMP Lifesteps Aggressive	7.3	-2.4	1.2	6.1	-1.8	-6.5	
ASB SMT Growth	159.2	-2.6	1.1	7.2	-1.3	-2.4	
Aventine's SuperLife Aim80	14.2	-2.8	2.4	10.5	1.1	-1.1	122
AXA SMT Multi-Mgr High Growth	140.9	-3.6	1.1	10.1	0.4	-2.4	
All Growth Funds	***648.2***	***-2.3***	***1.4***	***7.8***	***-0.8***	***-3.7***	

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Fund Name	Fund Size $ million	Annualised Returns (Net of Tax & Expenses) 1 Year	2 Year	3 Year	4 Year	5 Year	No of Employers
Balanced Funds							
Aon Balanced	40.6	3.2	4.3	8.7	3.2	1.3	55
AMP OnePath Balanced Plus	173.3	2.5	4.1	8.7	2.6	-1.8	
ASB SMT Balanced	381.2	1.6	3.2	7.5	1.0	0.1	
Tower Lifesaver Balanced	187.5	1.3	2.8	6.8	1.3	1.6	
Aventine's SuperLife Managed60	133.3	0.9	3.9	8.9	4.0	2.0	122
Aventine's SuperLife Ethica	3.9	0.8	2.3	5.9	3.7	0.0	
AMP Lifesteps Moderate Balanced	86.8	0.8	2.5	4.9	1.6	-1.3	
AMP Lifesteps Balanced	59.7	0.6	2.5	5.3	1.1	-2.4	
AMP Balanced	340.8	0.6	2.5	5.4	1.1	-2.4	
Mercer Active Balanced	107.2	0.4	2.8	9.2	0.8	-0.6	
AMP Tower Balanced	115.3	0.1	2.2	6.5	2.1	0.4	
Aventine's SuperLife Aim60	32.3	-0.3	3.3	9.6	2.7	1.2	122
AMP ASB Balanced	40.1	-0.4	2.5	7.9	1.1	-2.5	
AMP Tyndall Balanced (formerly BT balanced)*	92.7	-0.4	2.2	7.1	1.1	-3.3	
AXA SMT Multi-Mgr Balanced	454.7	-0.7	2.4	8.8	1.7	-0.3	
All Balanced Funds	***2,249.4***	***0.7***	***2.9***	***7.5***	***1.6***	***-0.6***	

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

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Conservative Funds							
Aon Conservative	15.6	4.1	4.5	6.9	4.3	3.4	50
Aon Capital Stable	5.4	3.8	3.7	4.7	4.4	4.4	21
Tower LifeSaver Conservative	13.9	3.3	3.6	6.1	2.9	2.8	
AMP Capital Stable	123.6	2.8	3.3	4.1	3.7	2.0	
Aventine's SuperLife Aim30	35.0	2.8	4.3	7.6	4.5	3.5	122
ASB SMT Conservative	98.3	2.8	3.9	6.7	2.6	2.3	
AMP Lifesteps Conservative	16.2	2.7	3.2	4.0	3.6	2.0	
Mercer Conservative	39.6	2.6	3.4	7.6	2.9	2.3	
AMP Capital Assured	109.4	2.5	2.7	2.7	3.0	3.3	
AXA SMT Multi-Mgr Conservative	190.6	2.2	3.3	6.0	3.0	2.2	
Aventine's SuperLife Managed30	1.5	2.1	0.0	0.0	0.0	0.0	122
AMP Lifesteps Moderate	58.9	1.8	2.9	4.5	2.6	0.3	
All Conservative Funds	***707.9***	***2.5***	***3.4***	***5.2***	***3.2***	***2.3***	

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, 30% to 30 September 2010 and 28% thereafter.

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Single Sector Aggressive							
Aventine's SuperLife Property	27.4	7.7	8.4	15.3	-1.0	-5.5	
Tower LifeSaver NZ Shares	8.0	2.2	1.6	8.6	-1.3	-4.6	
Aventine's SuperLife Oseas Shares Hedged	102.1	-0.5	5.0	17.7	0.7	-1.2	
Aventine's SuperLife NZ Shares	55.6	-3.4	4.4	13.4	3.1	-1.0	
Mercer Shares	15.9	-5.2	0.1	8.3	-3.7	-5.5	
Tower LifeSaver Equity	24.9	-5.7	-0.2	7.4	-3.8	-5.5	
Aventine's SuperLife Australian Shares	44.8	-7.2	-1.2	11.5	0.2	1.4	
Aventine's SuperLife Oseas Shares Unhedged	62.3	-7.7	-2.0	5.0	-2.7	-5.1	
Aventine's SuperLife Gemino	3.7	-33.5	-8.9	-2.8	-12.0	0.0	
All Single Sector Aggressive	***344.8***	***-3.4***	***2.3***	***12.1***	***-0.4***	***-2.4***	

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		1 Year	2 Year	3 Year	4 Year	5 Year	
Single Sector Defensive							
Aventine's SuperLife Overseas Non Govt Bonds	46.5	7.2	5.1	6.4	7.2	6.9	
Aventine's SuperLife Overseas Govt Bonds	57.8	6.4	5.4	5.5	6.5	6.9	
Aventine's SuperLife NZ Bonds	115.4	5.9	5.8	6.1	6.4	5.4	
Tower LifeSaver Fixed Income	13.7	5.8	5.3	4.8	5.8	5.3	
Aventine's SuperLife Cash	103.7	2.8	2.9	2.8	3.6	3.9	
Mercer Cash	42.2	2.2	2.6	2.3	2.8	3.2	
Tower LifeSaver Preservation	53.7	2.0	2.2	2.4	3.1	3.4	
AMP Cash	71.3	1.9	2.1	2.1	2.8	3.2	
AXA SMT Cash	62.6	1.7	1.9	2.0	2.4	2.8	
All Single Sector Defensive	***566.9***	***3.9***	***3.7***	***3.9***	***4.5***	***4.5***	
Total Funds	**4,517.2**	**0.6**	**2.8**	**7.1**	**1.7**	**-0.1**	
Cash Benchmark (Net)		**2.0**	**2.0**	**2.0**	**2.6**	**3.2**	
CPI		**1.6**	**3.0**	**2.7**	**2.8**	**2.9**	

Contact us:

Auckland auckland@eriksensglobal.com *Ph +64 9 486 3144*

Wellington wellington@eriksensglobal.com *Ph +64 4 470 6144*

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