

ERIKSENS ACTUARIAL

Actuaries & Investment Strategists

Eriksen's Master Trust Survey Results to 30 September 2012

Investment Returns

In the year to 30 September growth funds rose 11.3%, balanced funds gained 9.5% and conservative funds had positive returns of 5.7% after tax and fees. All three fund classes have considerably higher returns compared to last quarter.

Inflation rose 0.3%, a similar rise from the previous quarter. The calendar year to September 2012 saw inflation rise 0.8%.

Economic Commentary

Economic recovery continues to be a major political issue in most parts of the world. President Obama's re-election depends heavily on how the US public views the economy. There have been street protests and the public in those countries where ordinary people have seen their living standards falling in response to government imposed austerity.

Since the IMF expects it to take at least 10 years for the euro zone crisis, the Japanese and US debt, and the Chinese slowdown to be resolved then we can expect considerable further political fallout as the global economy hopefully recovers. The IMF's chief economist has suggested that Germany could help the struggling Euro zone economies by allowing some increase in domestic wages and inflation, thereby making the periphery more competitive. Although he sees no possibility of German hyperinflation, this is still a sensitive issue in Germany, so austerity continues to be forced onto those countries requesting a bailout. While Greece continues to struggle with the effects of austerity, the Spanish have so far held off asking for a full sovereign bail-out out of the fear of escalating fiscal demands from Germany, Finland and Holland which would further depress the economy.

Portugal meanwhile has announced hefty tax rises in order to qualify for the bailout which it needs to counter falling revenues from its continuing recession and rising record unemployment. The new taxes include income and property taxes, a new tax on financial transactions and a rise of 2% in the average income tax rate. These increases follow a previous tax proposal which was abandoned after widespread protests. They are expected to face intense opposition from the labour unions, especially as unemployment is now expected to rise from 15% to over 16%. If consumer confidence also falls as is expected then these estimates are likely to be conservative.

While the European situation is dire it is nothing to that of Iran where the Western (US and EU) sanctions to halt Iran's nuclear programme, have combined with a perilous domestic economy to force the Iranian rial down by more than 40% in a week. This has forced the prices of staples such as milk, cheese and bread, not to mention chicken and taxis, up almost daily. The sudden decline has been attributed to currency markets panicking after

the central bank gave preferential treatment to importers of medical and other essential supplies.

There has also been widespread unrest after the government cracked down on money changers and currency speculators in an attempt to prop up the rial. The ban on Iranian oil has more than halved its exports. Britain, France and Germany are pushing for the EU sanctions to be tightened still further later in October to close some of the remaining loopholes which can only lead to further hardship. No wonder people are rioting.

For those reasons we believe social and political unrest remain the biggest risks facing the global economy. Both China and US face a potential change of leadership. The fresh rounds of quantitative easing in the US and further moves in the European Central Bank (ECB) and UK suggest that high yielding debt instruments should benefit from a lower risk of default even as bond yields in Australia and New Zealand are forced down by overseas investors keen to capture modest interest returns. However at some stage interest rates should rise to reflect the increased risks of inflation.

The recent reduction in Australia's cash rate to 3.25% by the RBA was anticipated by 66% of the market (in dollar terms) showing that investors view the Australian economy as weaker with the China slow down. We do not expect the RBNZ to follow because reducing the OCR will not affect our exchange rate much and could lead to more of a housing boom in Auckland and Christchurch.

Whilst it has been a pleasing quarter for equity markets the gap between investors' perception of growth performance for stocks and the level of real growth in the economy continues to widen. The IMF continues to reduce its predicted growth rates for next year and the forward price of oil is falling due to reduced expected demand. We therefore continue to expect equity markets to fall in major markets although the New Zealand market appears to be better placed despite our flat economy.

Conference

Thank you to all our speakers, delegates and staff who helped make the Conference a success! This year it was entitled "Real Risk Management" to reflect the major themes of the year to date. Most presentations are available on our website.

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Eriksen's Master Trust Survey Results to 30 September 2012

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							
AXA SMT Multi-Mgr High Growth	91	15.8	5.1	4.9	4.2	-1.7	
AMP Lifesteps Aggressive	6.8	13.1	3.2	3.3	-0.4	-3.5	
AMP High Equity	194.5	13.0	3.3	3.4	-0.4	-3.5	
Aventine's SuperLife Aim80	15.2	11.9	4.1	5.0	3.2	-1.2	126
AMP Lifesteps Growth	33.6	11.6	3.4	3.5	0.5	-2.2	
Aon Growth	6.7	11.5	5.8	6.2	4.3	0.8	39
Tower LifeSaver Growth	27.8	10.7	3.8	4.4	3.4	-0.8	
ASB SMT Growth	164.2	9.9	3.2	3.8	2.5	-1.5	136
Mercer Growth	66.2	8.8	3.5	3.6	2.5	-1.9	75
All Growth Funds	606.0	11.9	3.7	3.9	1.8	-2.2	

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

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Balanced Funds							
Aventine's SuperLife Managed60	134.1	12.7	5.7	6.1	5.1	2.1	126
AMP OnePath Balanced Plus	177.9	11.7	5.9	6.1	3.5	0.9	
Aventine's SuperLife Aim60	36.8	10.9	4.6	5.4	4.4	1.1	126
Aventine's SuperLife Ethica	4.6	10.7	5.0	4.3	4.7		
AMP ASB Balanced	43.0	10.2	3.5	4.4	2.2	-0.3	
AMP Tower Balanced	117.4	10.2	3.7	4.6	3.4	1.8	
AMP Balanced	336.5	10.0	3.8	3.9	1.8	-0.3	
AMP Lifesteps Balanced	61.9	10.0	3.8	3.8	1.8	-0.3	
AMP Tyndall Balanced (formerly BT balanced)*	95.0	9.8	3.7	4.3	2.3	-0.6	
Aon Balanced	46.4	9.3	5.0	5.5	4.9	2.2	55
AXA SMT Multi-Mgr Balanced	199.8	9.1	3.4	4.0	4.0	-0.5	
AMP Lifesteps Moderate Balanced	91.0	8.8	3.5	3.7	2.1	0.4	
Tower Lifesaver Balanced	192.3	8.7	3.9	4.5	3.9	2.0	
Mercer Active Balanced	108.7	8.0	3.7	4.0	3.1	-0.6	75
ASB SMT Balanced	397.1	7.8	3.4	4.1	3.3	0.5	136
All Balanced Funds	2,042.5	9.5	4.0	4.5	3.2	0.5	

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

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Conservative Funds							
Aventine's SuperLife Managed30	3.3	8.8	4.7				126
Aventine's SuperLife Aim30	36.5	8.6	5.0	5.7	5.4	3.7	126
AMP Lifesteps Moderate	65.1	7.4	3.6	3.8	2.7	1.6	
Aon Conservative	17.3	7.0	4.8	5.3	5.2	4.0	51
Tower LifeSaver Conservative	17.3	6.5	4.1	4.6	4.3	3.3	
ASB SMT Conservative	103.0	6.4	3.8	4.4	3.9	2.3	136
AMP Capital Stable	130.8	6.1	3.7	3.9	3.6	2.9	
AMP Lifesteps Conservative	18.0	6.0	3.6	3.8	3.5	2.9	
AXA SMT Multi-Mgr Conservative	101.7	5.7	3.4	3.9	4.1	2.1	
Mercer Conservative	40.8	5.5	3.3	4.2	4.2	2.2	75
Aon Capital Stable	5.7	5.1	3.8	4.5	4.8	4.6	21
AMP Capital Assured	104.7	1.9	2.4	2.6	2.7	3.1	
All Conservative Funds	644.3	5.7	3.5	3.9	3.7	2.6	

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Single Sector Aggressive							
Aventine's SuperLife Gemino	3.7	26.9	-11.2	-3.3	-3.9	-10.1	
Aventine's SuperLife NZ Shares	64.8	23.7	12.6	10.9	9.8	1.9	
Aventine's SuperLife Oseas Shares Hedged	104.3	20.5	7.0	7.7	3.9	-2.4	
Aventine's SuperLife Property	34.6	18.0	11.0	10.1	3.3	-3.3	
ASB Global Property Shares	18.2	16.0	5.9	8.2	-0.1	-6.6	
Tower LifeSaver Trans-Tasman Equity	9.9	14.6	7.6	5.7	5.4	-2.1	
Aventine's SuperLife Oseas Shares Unhedged	65.1	12.0	0.6	1.7	-2.4	-5.8	
Mercer Shares	15.4	11.9	2.9	2.1	0.4	-6.1	
ASB World Shares	38.0	10.8	2.8	3.4	-1.5	-5.8	
Tower LifeSaver Equity	24.3	10.7	0.9	2.5	0.8	-5.0	
ASB Australian Shares	11.0	10.2	4.1	3.5	4.9	-2.2	
Aventine's SuperLife Australian Shares	46.5	10.1		1.2	2.9	-2.4	
All Single Sector Aggressive	435.8	16.2	5.3	5.7	2.7	-3.1	

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Single Sector Defensive							
Aventine's SuperLife Overseas Non Govt Bonds	53.5	8.4	5.5	6.1	7.6	7.6	
Aventine's SuperLife Overseas Govt Bonds	58.9	5.7	4.3	6.1	6.6	7.1	
Aventine's SuperLife NZ Bonds	123.7	5.4	5.7	6.1	6.1	5.9	
ASB New Zealand Fixed Interest	16.3	4.9	5.0	5.5	5.7	5.7	
Tower LifeSaver NZ Fixed Income	15.3	4.8	4.9	5.2	5.4	5.5	
ASB World Fixed Interest	13.2	4.0	3.7	4.5	4.9	5.2	
Aventine's SuperLife Cash	104.9	2.8	2.9	2.9	3.0	3.6	
Tower LifeSaver Preservation	53.0	2.1	2.2	2.4	2.7	3.2	
AMP Cash	70.9	1.8	2.0	2.1	2.4	2.9	
Mercer Cash	41.1	1.8	2.1	2.2	2.3	2.9	
ASB Cash Fund	49.7	1.7	1.9	1.9	2.2	3.0	
AXA SMT Cash	37.7	1.3	1.6	1.8	2.0	2.5	
All Single Sector Defensive	638.2	3.8	3.5	3.9	4.2	4.6	

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Total Funds	4,366.7	9.2	4.0	4.4	3.2	0.7	
Cash Benchmark (Net)		2.0	2.0	2.0	2.1	2.8	
CPI		0.8	2.7	2.3	2.1	2.7	

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