

“march of the markets”

investment commentary



Performance as at 31 March 2010

Market 31/3/10 Gross Returns	3 month % change	6 month % change	One year % change
MSCI World Index	5.1%	9.7%	20.6%
<i>Asia Pacific</i>			
NZSX50 (G)*	1.2%	3.4%	26.2%
ASX200	5.7%	11.3%	50.4%
Nikkei 225	6.5%	6.9%	14.0%
<i>Americas</i>			
Dow Jones	5.9%	13.8%	12.3%
<i>Europe</i>			
MSCI Europe (G)	0.0%	3.3%	23.8%
<i>New Zealand Cash</i>			
90 Day Bank Bill Index	0.7%	1.4%	2.9%

* Note: Returns are in local currency.



International Equities

The performance of International Equities has been a mixed bag since our last report. Stronger company results have been offset by concerns over the financial woes of countries such as Greece. We expect this binary situation to extend over the rest of 2010. Merger and takeover activity has started to rise as companies with reconstituted balance sheets begin to put their cash to work. (Let's face it – it's a lot better than leaving the money on deposit at a US bank earning 0.25%!) We continue to expect markets to focus on earnings delivery.



Australasian Equities

Recent economic indicators have reinforced a profile of the New Zealand and Australian economies as continuing to recover. The pace of the upturn in New Zealand is likely to be more subdued than in Australia where their exposure to the commodity demand from China is underpinning their growth. We are pleased to note that a desirable rebalancing of New Zealand growth is occurring away from consumption and housing and towards the export sector.



Domestic Fixed Interest

We think the Governor of the Reserve Bank will probably pull the interest rate 'up' lever mid to late 2010. We believe that the Reserve Bank will not have to raise the OCR rate anywhere near the last interest rate cycle peak of 8.25%. This is due to a number of factors: most current lending is now on floating or one year fixed terms, which means that any interest rate increase will flow more quickly into lending rates (thus dampening down loan demand); businesses and home owners are de-leveraging; banks do not have so much to lend; and finally, with unemployment expected to peak at over 7%, there is plenty of spare capacity in the economy.

HELLO AND WELCOME to a new edition of Lifestages Investment Commentary. This document updates the Lifestages KiwiSaver Scheme for the six months to 31st March 2010, as well as providing you with a summary of our analyses and views on the investment landscape. It's the first such report for the 2010 year and complements the Personal Statement you will receive later detailing the KiwiSaver transactions made by you in the period 1 December 2009 – 31 May 2010.



Graham Duston,
Executive Director for
Funds Administration
New Zealand (FANZ).

At this point I'd like to alert you to the cut-off date for payments to qualify for member tax credits: **30th June, 2010.**

I'm very happy to report that it has been another good year for investors in the Lifestages Capital Stable Portfolio. For the 12 months to 31st March 2010, the fund has delivered positive returns. We're proud of the fact the "tried and true" investment processes employed by the Lifestages Capital Stable Portfolio have kept investors in positive territory almost every year since the fund's inception. Its younger cousin, the Lifestages Growth Portfolio, has attracted many new investors since its inception. Returns for this fund were muted for the last three months, a reflection of the 'binary' nature of investment markets at present.

MANIPULATION ISSUES

For all KiwiSaver investors around the country, the last three months have provided food for thought. A couple of major issues, both related to the communication of inflated returns, I feel require some comment.

The first relates to the recent adverse publicity surrounding a well-known Auckland-based KiwiSaver provider in relation to its portrayal of its performance figures. It was found that the scheme incorrectly accounted for compensation, which had the effect of pushing up returns figures and gave investors a false performance picture. Some commentators downplayed the impact of this manipulative behaviour.

I'd like to reassure our own KiwiSaver members that we have the following protective processes in place:

1. A robust and well-established set of investment processes and practices provide a stable operating environment for the management of the assets of the Lifestages KiwiSaver Scheme.
2. An independent custodian, TEA Custodians Limited, holds all the assets of the Lifestages KiwiSaver Scheme in its name and obtains all the relevant market prices for reporting. The custodian also operates the bank accounts for the Lifestages KiwiSaver Scheme, thus safeguarding the

scheme's assets for all of our members.

3. Deloitte acts as the manager's internal auditor, while KPMG acts as the auditor for all of the Lifestages Portfolios (including the Lifestages KiwiSaver Scheme). A review of the manager's accounting and pricing methodology for the Lifestages Portfolios is included in both parties' work scope as a matter of course each year. We're pleased to report that neither party has ever felt the need to raise any material issues in regard to these processes.

4. The key staff involved in the day-to-day running of the Lifestages KiwiSaver Scheme have an enviable depth of funds management experience (I personally have over 20 years' experience with some of New Zealand's largest funds management organisations). This is not new territory for us and we are building on a successful investment philosophy that was first started in 1992.

The second issue I want to raise is the portrayal of investment returns recently made by some KiwiSaver scheme

Important

This document is intended for information purposes only and should be read in conjunction with the Investment Statement for the Lifestages KiwiSaver Scheme which can be obtained by contacting the Manager on 0800 502 442 or by contacting your local building society or financial adviser. This information is of general nature only and has not been prepared with regard to the needs of any investor. Investors should be aware that future performance may not reflect past results and the performance of the scheme, repayment of any capital or any particular rate of return are not guaranteed. Details are current as at the date of preparation and are subject to change. An adviser disclosure statement is also available, on request, and free of charge from your local building society branch or financial adviser.

Continued...

“ Although we are quietly optimistic about the investment prospects for 2010, we also believe there will be more surprises ahead from the markets. That is the nature of the beast. ”

managers that are, quite frankly, misleading. Some advertising proudly points to “stunning” returns exceeding 40% for the year, using the period of 1st February 2009 to 31st January 2010. What is not mentioned are the huge negative returns investors suffered over the previous 12 months, courtesy of the global financial crisis.

Let's look at an investor who invested \$100 in a fund that lost 40% in the first year, and then made 40% the year after. Even ignoring the effect of fees and taxes, the investor would have had the following result:

Year One: \$100 plus loss of 40%
= Value of \$60 at end of year

Year Two: \$60 plus gain of 40%
= Value of \$84 at end of year

Despite the two-year return averaging out at 0%, our investor is still \$16 down on the original value!

We believe a more productive approach is to focus on maintaining capital value over the long term. That way investments can move ahead more strongly when the investment markets eventually swing back to growth mode. Any erosion of capital will always mean you have to play a lot of “catch up”. As you fine people (I can tell that from here!) are members of the Lifestages KiwiSaver Scheme, I'm probably preaching to the converted. However, I do feel strongly that many New Zealanders have not grasped the importance of these matters. If we can assist in passing on a little knowledge to your friends or families on these issues, please let us know. We'd be delighted to help.

MARKET COMMENTARY Post-TARP Realities

“Two steps forward, one step back” sums up the period since the last report. We saw US banks emerge from the Troubled Asset Relief Program (TARP) and generally report increased profits as well as increased payments to key executives. As the saying goes, “there are no atheists in a fox hole”. That certainly seemed the case in early November 2009 when Lloyd Blankfein of Goldman Sachs said

he was doing “God's work” by taking Goldman Sachs out of the TARP and that the company was on track to pay out billions in bonuses this year. He later said he was being “ironic”.

The outcome of the worldwide bailout is only starting to become clear. The investment made by the governments of the United States and United Kingdom in banks like CitiGroup is not having a uniform effect.

For example, it appears the US government's investment in CitiGroup is already “in the money”. However, the picture is not so rosy across the Atlantic. A UK Treasury report released in December 2009 conceded that “the ultimate cost of these interventions is expected to be a small fraction of the initial commitments and, in some cases, interventions could ultimately bring a positive return.”

Otherwise Fine

The New Zealand Fiscal Update released by the government prior to Christmas produced the following positive statistics:

- Unemployment to peak at 7% before dropping to 4.8% by 2014;
- Net debt to hit \$57.5bn in 2013 instead of the previously projected \$62.6bn;
- Budget to remain in deficit of 2.9% in 2012 instead of 5%;
- Inflation to rise to 2.5% in 2010 and remain above 2% until 2013.

These numbers came in the wake of bullish signs across the ditch. Australia raised interest rates in late 2009 after reporting strong domestic growth and a commodity price surge on the back of strong demand for resources from China and Asia.

The OECD also produced a report in November 2009 that stated that the global recovery would be stronger than expected. This would assist in driving higher earnings for listed companies and produce sound equity market results. But the OECD also believed it would take years to bring unemployment and government debt back to pre-crisis levels. This is indeed the crisis that keeps on giving!

An In-Debt Analysis

The issue of government debt is the big step backwards for the world. Governments are finding themselves in a contradictory position. They are being urged to borrow (run deficits) to help the struggling real economy. At the same time they're under pressure to exercise financial discipline so their credit ratings are not adversely affected.

This conundrum is indicative of a much wider challenge facing industrial countries. Unemployment has soared while governments' fiscal flexibility is being eroded by fiscal deficits and ballooning sovereign balance sheets.

The price of getting it wrong, as shown by Greece, is huge – an overnight blowout of almost 4% in the price of sovereign debt. There's a ‘classic’ irony to Greece's near default. The first recorded government default took place in the 4th century BC, when Greek municipalities failed to pay back loans granted by a temple.

Policymakers worry that Greece's woes will spread to other weaker members of the Eurozone. A couple of years ago the contagion effect was a concern in the banking sector. It's alive and well today, but it's whole countries that are now in the firing line!

This issue is central to the problems we face in 2010. The crash of 2008 was a private sector debt crash. The over-gearing has not disappeared, it's only changed hands. The private to public liability keeps growing as governments worldwide “prime the fiscal pump”.

WHAT DOES IT ALL MEAN FOR INVESTORS?

Although over recent weeks markets have been choppy due to concerns about banking reforms, the longer term view is still positive. Looking past the easy gains that were had over 2009, valuations still remain fair. Companies that have rising margins, earnings growth and strong balance sheets should perform strongly. We feel there may also be a rise in takeover activity in 2010.

fund performance

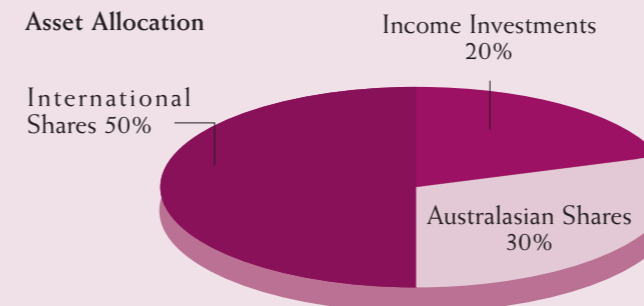
Lifestages KiwiSaver Scheme as at 31st March 2010

Lifestages Growth Portfolio

Unit Price: 1.015677 (as at 1/4/10)

Gross Returns (Gross of tax and net of fees)	1 Month	3.28%
	3 Months	1.57%

Asset Allocation



Who does this Fund suit?

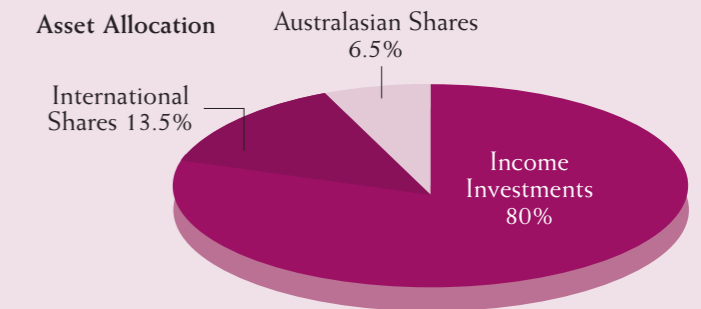
The Lifestages Growth Portfolio is designed to suit investors who are seeking long-term capital growth as opposed to income returns. They are prepared to tolerate fluctuations in their capital on the basis their investment should grow more strongly over the long-term.

Lifestages Capital Stable Portfolio

Unit Price: 2.138496 (as at 1/4/10)

Gross Returns (Gross of tax and net of fees)	6 Months	2.22%
	1 Year	6.89%
	2 Years p.a.	4.25%

Asset Allocation



Who does this Fund suit?

The Lifestages Capital Stable Portfolio is designed to suit investors who are seeking investments whose capital is less likely to fluctuate or produce a negative return. A strong focus on capital preservation is a key for these investors even if they forego long-term capital growth. A majority allocation to fixed interest assets is favoured by these investors.

NZ INTEREST RATES

As you're no doubt aware, due to rising inflation and a recovery in economic activity, we're likely to see the Reserve Bank raise interest rates in the second half of 2010. We have positioned our portfolios to take advantage of any interest rate increase. We believe this will flow into returns over the latter part of 2010.

Overall, we feel 2010 won't be plain sailing. Pressure on governments to both withdraw fiscal stimulus and start raising interest rates in response to inflationary pressure will start to bite over the second part of 2010. We expect a year of tough calls with budget discipline looming as a key issue globally. This will test governments, given their customary desire to increase outlays rather than cut costs. It's likely we'll see an arm wrestle between the central banks and the finance ministers of many countries. The central banks will want to control inflation,

while governments will be under pressure to keep spending.

This kind of environment could easily usher in an economic unravelling over the second half of 2010. A bear market in bonds may develop, while the rising interest rate environment could dampen any recovery in domestic and consumer spending, as well as cause issues with bad debts for banks. The hope that consumers and exporters will take over from government as the leading contributors to GDP growth could very well not happen.

2010 promises to be anything but a quiet year!

A FIRM HAND ON THE TILLER

In our last investment commentary I made some cautionary remarks about the dangers of complacency. Although we are quietly optimistic about the

investment prospects for 2010, we also believe there will be more surprises ahead from the markets. That is the nature of the beast. As an investor this means one thing: ensuring your portfolio is positioned to minimise the impact of volatility and preserve capital where possible.

Once again, thanks for the opportunity to work alongside you to help you achieve your financial goals. We appreciate your support and look forward to being of service to you in the future. Please do contact us if you have any questions at all.

GRAHAM DUSTON
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Manager of the Lifestages KiwiSaver Scheme
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