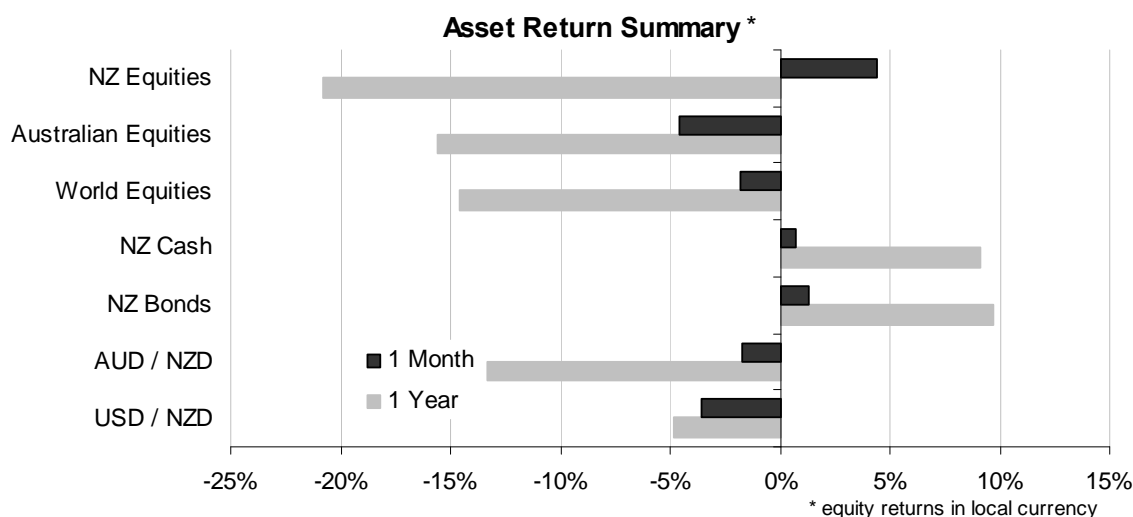


Hāhāea nga ripa o te pō, kia whiti ake ko te māramatanga
(Shred away the darkness, let there be light)

LTF Limited: Monthly Market & Sector Review – July 2008

Market Overview

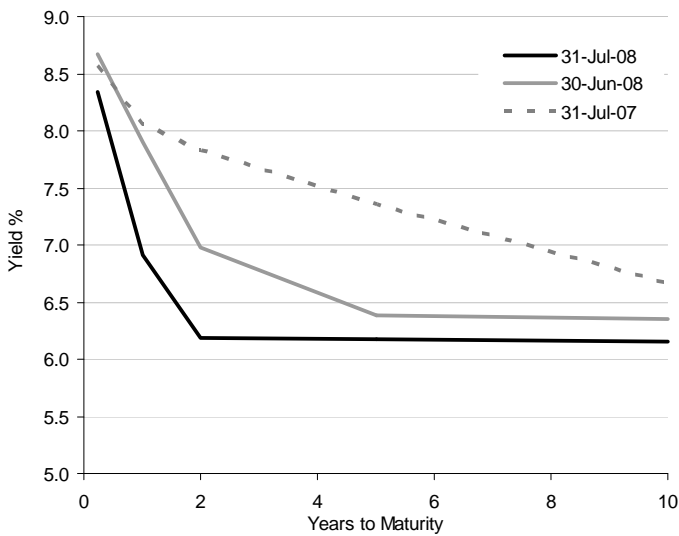


- Further concerns of the state of the banking industry dominated the financial markets in July. In particular, in the United States there were another three bank failures and a major rescue of two major government sponsored enterprises, Freddie Mac and Fannie Mae. These events did nothing to instil confidence in the outlook and, despite much lower oil prices, global equity markets ended lower, with the World Index down 1.8%.
- For the first month this year, NZ equities outperformed, with its lack of finance and energy sector exposures helping as well as the first easing in the official cash rate in this cycle. The Reserve Bank cut interest rate by 0.25% to 8.0% and suggested that further cuts were likely. The NZX-50 Index closed the month up 4.4%.
- Weaker economic conditions supported the bond market. The NZ 10-year government bond rate dipped below 6% at one stage, before closing the month down 0.2% to 6.15%. Lower interest rates and commodity prices impacted the New Zealand dollar with a 3.6% fall against the US dollar and touched a 7 year low against the Australian dollar.
- The global financial turmoil hit the Australian share market in July, as two of the four 'banking pillars' provided disappointing earnings guidance due to greater than expected bad debt provisioning. Australian financial stocks fell sharply as a result, and the share market was down 4.6% for the month.
- In New Zealand, economic data remained weak, with further confirmation that conditions remained recessionary, while inflation remained above the Reserve Bank target range, rising 1.6% in the June quarter and 4% for the year.

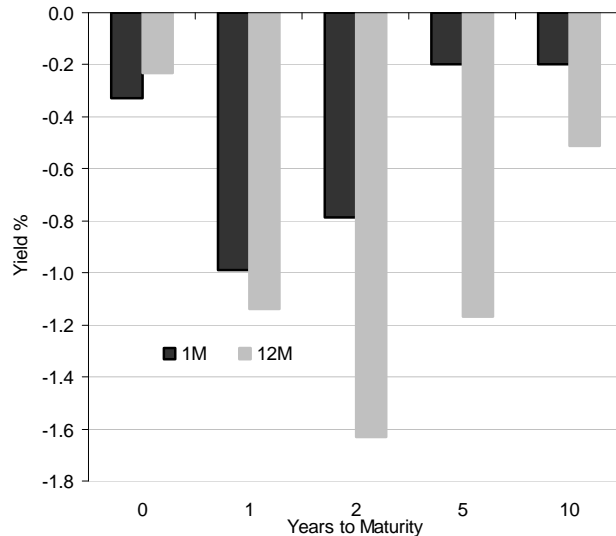
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NZ Cash & Fixed Interest

NZ Yield Curve



Yield Curve Movement



The Reserve Bank of New Zealand (RBNZ) cut the official cash rate (OCR) by 0.25% to 8.00% in July. In their statement, the RBNZ stated that they expect to lower the OCR further, provided the outlook for inflation improves and the New Zealand dollar remains steady. Financial markets are predicting a series of cuts over the next 12 months, taking the OCR below 7% in the March quarter of 2009.

The 90-day bank bill rate declined around 0.33% over July, reflecting the RBNZ rate cut, and the expectation of further cuts over the coming months. The New Zealand 10-year government bond rate dipped below 6% at one stage, before closing the month down 0.2% to 6.15%.

New Zealand's inflation rose by 1.6% in the June quarter and 4.0% for the year. Petrol contributed 0.7% and food contributed 0.4%. The core inflation measure, which excludes energy and food, remained high. The Bank now expects annual inflation to peak at 5.0% in the September quarter and economic growth to remain weak over the rest of the year, before a gradual recovery occurs next year.

The Quarterly Survey of Business Opinion painted a very bleak picture of the economy, with many forward-looking activity indicators taking another lurch down and businesses clearly struggling, with weaker activity levels and surging cost pressures. Cost and pricing indicators reached 22-year highs, no doubt reflecting higher oil prices. Higher cost pressures were exerting a squeeze on profitability, with the expected profitability indicator reaching its worst level in 26 years.

Australian bond yields also fell as it seemed that the Reserve Bank of Australia was adopting an easier tone and cash rate hike expectations were reined in. By contrast US bond yields were relatively steady.

The Australian Government bond yields fell in the later stages of July, influenced by the weakening domestic economic data and growing credit concerns, which hit equity markets hard and prompted strong flows to risk-free assets. The 10-year yield dropped to 6.22% from 6.45%. In a rare period, the Australian yields were higher than the New Zealand yields. Since 2000, New Zealand yields have averaged a 0.5% higher than Australia.

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NZ Equities

For the first month this year, NZ equities outperformed other asset classes, with its lack of finance and energy sector exposures as well as the first cut in the official cash rate by the Reserve Bank. After the 11.9% decline in June, the NZX50 Index rose by 4.4%. Investors took on board a less defensive stance and some previously beaten up stocks performed well during July.

A weaker New Zealand dollar had a positive impact on the export sector as well as those companies with substantial offshore subsidiaries. Fisher and Paykel Healthcare, Methven, Steel and Tube (higher steel prices helped as well), Hallenstein Glasson (despite issuing a profit warning that highlighted the deteriorating retail market in Australasia) and Michael Hill International performed very well.

The worst performing stock was The Warehouse Group after the Court of Appeal announced that it had set aside the clearance granted by the High Court for Woolworths and Foodstuffs to acquire up to 100% of the shares in, or assets of, The Warehouse Group.

Australian Equities

The Australian equity market fell by 4.6% in July. In another highly volatile month, several trends reversed, primarily due to the correction in oil prices (-14%) and spot commodity prices (CRB index -11.1%). This was a catalyst for rallies in oil sensitive sectors (airlines, transport) and sharp falls in the resources sector. Banks rallied throughout the middle of the month but fell sharply in the last week due to write-downs from ANZ Banking Group and National Australia Bank. Despite this volatility, the banks outperformed the market, thanks to Westpac Banking Corporation which performed strongly over the month as the disparity in quality of the banks lending assets widened.

Offshore Equities

Once again the banking sector dominated the financial markets in July, with another three bank failures in the US and a major rescue of two major government sponsored enterprises, Freddie Mac and Fannie Mae. While this restored some confidence in the US mortgage market, it became clear that the global credit crisis was far from over. These events did nothing to instil confidence in the outlook and, despite much lower oil prices, global equity markets ended lower, with the World Index down 1.8%.

US economic growth recorded modest improvement in the June quarter on earlier estimates, with retail sales and trade data dispelling doomsday expectations. Inflation pressures, though contained, started to pick up pace. The decline in employment continued to level off in July, and steady manufacturing surveys also suggested that the US economy has not fallen apart.

Interest rates were raised in early July by the European Central Bank (ECB) in response to rising inflation even though economic condition in the European region has continued to deteriorate. Surveys from the manufacturing and services sectors showed further weakness. The consumer-driven economic slowdown became more evident as consumer sentiment fell to a 16 year lows, retail sales slowed and June building approvals declined.

In this environment of better than expected US data, but sharply weaker growth around the rest of the world, that the US dollar is finding a solid base of support. The improving US dollar sentiment survived a critical test when the US Federal Reserve, the ECB, the Bank of England and the Reserve Bank of Australia all left the cash rate unchanged and the accompanying statements, particularly from the ECB, suggested interest rates may have peaked.

Monthly Market Insight – NZ Economic Outlook and Market Overview

First NZ Capital provides us with their latest New Zealand economic and market outlook.

Growth: The NZ economy is likely in recession and the first half of the year was probably the period of peak negative growth momentum as the drought and rise in oil prices playing a major role. Lower oil prices, easier interest rates, a weaker dollar, tax cuts and the drought impact dissipating should result in better economic conditions ahead, but sub-trend growth is likely to continue through the next 12 months.

Earnings Environment: Profits are being hit by weaker demand restraining revenue growth and higher costs, namely oil and labour. Not surprisingly, business surveys show confidence and profit expectations at depressed levels. While earnings downgrades remain a prevalent theme, there's plenty of scope for this to continue. Consumer and housing market exposures seem the most vulnerable.

Interest Rates: The lower interest rate cycle has begun, but despite the 1.5% of rate cuts expected over the next 12 months or so, the flow-on effect for retail mortgage rates and business lending rates will be negligible, due to the prevalence of fixed rates borrowing and the ongoing impact of the global credit crunch. "True" interest rate relief for households won't be forthcoming until 2010.

Currency: The New Zealand dollar is on a modest depreciating trend and our forecasts embody that trend continuing, except against the Australian dollar, which should stabilise following the significant correction. In an environment of widespread margin pressure, this is a welcome development for the net exporters.

Valuation: The big fall in share prices this year has seen some value open up in the market, with NZ equities on the cheap side of fair value when measured on a PE ratio compared to average, against bond yields and on a dividend discount model. However, compared to global equities, NZ equities remain expensive and therefore remain unattractive to international investors in a low risk appetite environment.

Equity Strategy: We have maintained a defensive stance all year but after some big falls in the share price of economic sensitive companies, that strategy has become a little stale and our recommendation is to become less defensive. Investors should be looking to gradually close up underweight positions on the economic sensitive companies over the next three to six months. Investors should continue to gradually build positions in stocks favourably disposed to a weaker New Zealand dollar.

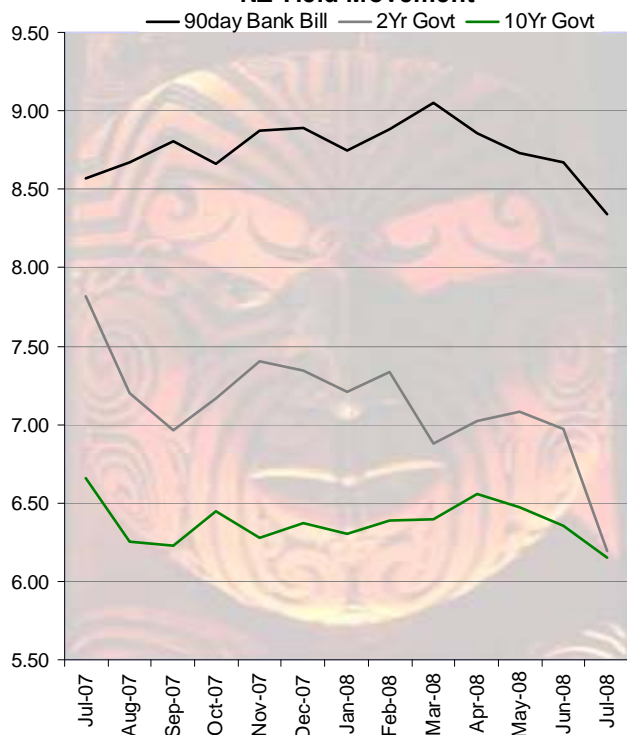
Stock Selection – We like Contact Energy's defensive characteristics and good growth profile despite the transition to market priced gas. Sky City Entertainment Group share price has fallen significantly and at current prices offers good value. After years of facing a strong currency headwind, Fisher and Paykel Healthcare's earnings are expected to show good recovery. NZ Oil and Gas is a very cheap stock in the energy sector and has strong cash flows and plenty of capacity for exploration. We are overweight the listed property sector and prefer the high quality stocks AMP NZ Office Trust and Kiwi Income Property Trust. Amongst the smaller companies, as a general rule we prefer large cap stocks to small cap stocks in a weak economic environment and one in which risk appetite is low. Of the stocks with market capitalisation less than \$500m, we like Tower, Steel and Tube and NZX.

Asset Allocation - We are underweight equities, underweight bonds, overweight cash and slightly short the NZ dollar

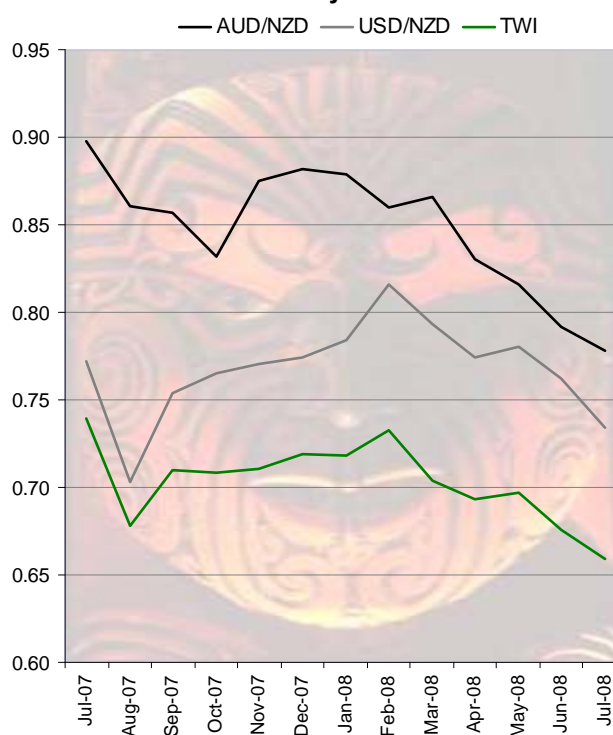
Market Data Summary

Equities (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX50	3,336	4.4%	-8.0%	-9.1%	-20.8%	-0.2%	9.2%	7.8%
ASX200 (Local)	32,330	-4.6%	-10.3%	-10.0%	-15.6%	8.7%	14.4%	10.7%
ASX200 (NZD)		-2.9%	-4.4%	1.6%	-2.6%	14.1%	17.6%	11.6%
MSCI World (Local)	2,212	-1.8%	-8.5%	-6.5%	-14.5%	3.8%	8.3%	2.5%
MSCI World (NZD)		1.2%	-3.9%	0.9%	-6.4%	4.2%	6.0%	0.3%
Bonds (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX 90 Day Bank Bill	527.21	0.8%	2.2%	4.5%	9.1%	8.2%	7.4%	6.6%
NZX Govt Bond Index	974.36	1.1%	3.2%	4.7%	10.0%	5.4%	5.5%	6.4%
NZX Composite A Grade	2,658	1.3%	3.6%	5.2%	9.7%	5.6%	5.6%	6.4%
Property (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX Property	2,071	-4.4%	-7.6%	-8.6%	-16.0%	4.7%	10.1%	9.9%
ASX200 Property (Local)	25,816	-5.0%	-23.0%	-23.4%	-36.5%	-4.2%	4.4%	7.1%
ASX200 Property (NZD)		-3.3%	-17.9%	-13.5%	-26.7%	0.6%	7.3%	8.0%
Currencies (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
AUD / NZD	0.7783	-1.7%	-6.2%	-11.4%	-13.3%	-4.7%	-2.7%	-0.8%
USD / NZD	0.7344	-3.6%	-5.2%	-6.4%	-4.8%	2.4%	4.7%	3.6%
NZ TWI	65.9	-2.5%	-4.9%	-8.2%	-10.9%	-1.6%	1.1%	1.3%
Interest Rates (basis points)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
90 Day NZ Bank Bill	8.34	-33	-52	-41	-23	131	329	103
10 Year NZ Govt Bond	6.15	-20	-40	-16	-51	45	40	4
10 Year US Govt Bond	3.99	0	22	32	-75	-29	-50	-151
Commodities (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
Oil Prices (US\$/WTI)	124.08	-11%	9%	35%	59%	27%	32%	24%
CRB Index	416.4	-10%	2%	13%	28%	10%	12%	7%

NZ Yield Movement



NZ Currency Movement



Sources: ANZ National Bank, First NZ Capital, LTF Limited.

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