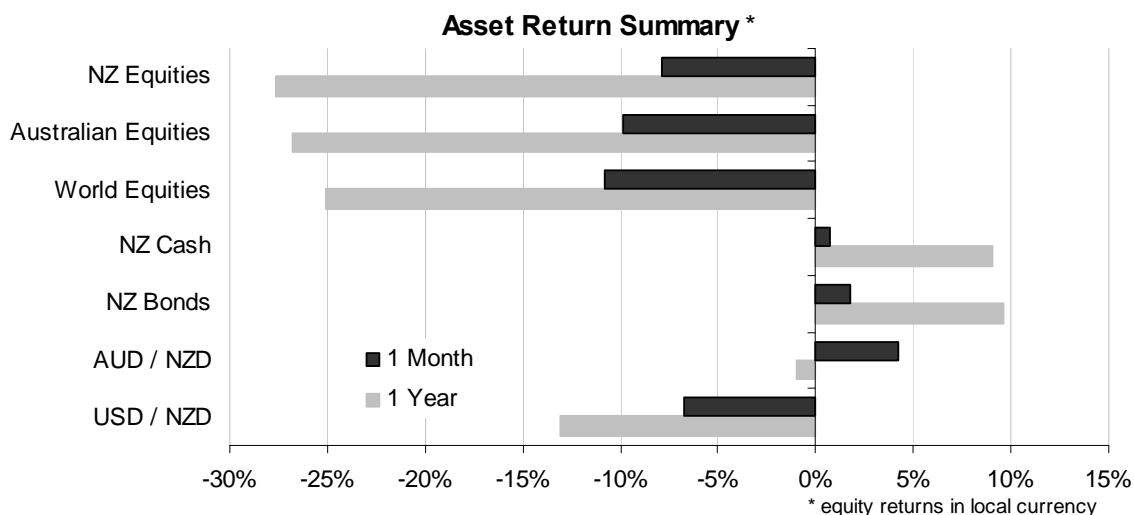


Hāhāea nga ripa o te pō, kia whiti ake ko te māramatanga
(Shred away the darkness, let there be light)

TMF Limited: Monthly Market & Sector Review – September 2008

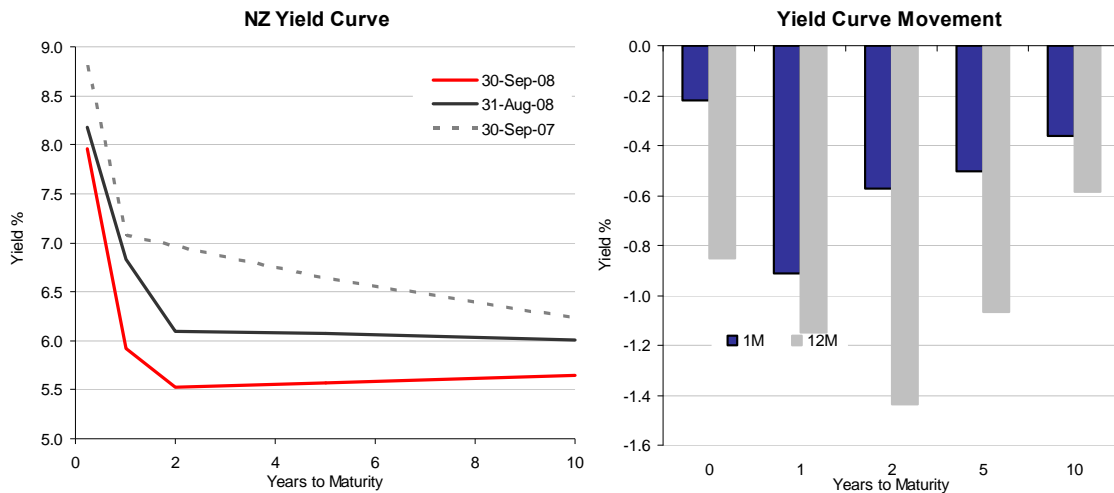
Market Overview



- The global credit crunch lurched from bad to worse, with events coming to a head in September. September was one of the most action-packed months ever seen in the modern financial era. The global credit crunch was widely described as the worst crisis since the Great Depression, with the dramatic events that took place consistent with that sort of description. Markets behaved erratically.
- The sovereign bond market was the place to be during the quarter, given the flight to quality and falling interest rates, with strong returns for NZ bonds (2.1% for the month and 4.2% for the quarter) and hedged global bonds (3.8% for the quarter). Cash was not too bad either, returning a healthy 0.7% for the month and 2.1% for the quarter.
- In the equity space, it was a dead heat for the quarter between unhedged global equities and NZ equities, which both returned minus 3.3% for the quarter. NZ equities were down 7.8% for the month. A significant fall in the NZD softened the impact of much weaker global equity markets. In local currency terms, the MSCI World Index fell by 11.4% for the quarter, with much of the damage occurring in the month of September, down 10.8% for the month.

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NZ Cash & Fixed Interest



Bond markets were volatile but generally well supported. NZ bonds performed particularly well, with the NZ 10-year rate down by 36 basis points and the five-year rate down by 47 basis points. The reduction in NZ interest rates was supported by a surprise 50bp easing in the OCR to 7.5% in the RBNZ’s Monetary Policy Statement. The Bank front-loaded the expected easing, given the deteriorating global credit conditions and weaker-than-expected NZ economy. Despite the surprise move, the 90-day bank bill rate only fell by 22bp over the month

Worsening conditions in credit markets and funding issues over the end of September (Australian banks balance date) helped to keep short-term money market rates from falling further.

Key local economic releases during the month were the 0.2% contraction in 2Q GDP, providing confirmation that the economy was in recession in the first half of the year; the widening of the current account deficit to 8.4% of GDP; and the recovery in business and consumer confidence.

NZ Equities

Markets were volatile and highly unpredictable. As a sign of the panic and loss of confidence in markets that occurred, the flight to safety briefly resulted in the yield on short-term US Treasury bills reaching close to zero. Not surprisingly, the net result of all this turmoil was a significant fall in equity markets for the month, with the MSCI World Index down by 10.7% and the NZX-50 Index down by 7.8%. Steel and Tube was the best performer in the top 50, driven by a takeover offer from its major shareholder, OneSteel; the property sector performed relatively well amid the turmoil. At the other end of the leaderboard, PGG Wrightson fell by over 35% as it faced issues around funding its 50% stake in Silver Fern Farms.

Australian Equities

The Australian share market (S&P/ASX200 Accumulation Index) fell by 9.8% in September, after a positive performance in August. The poor performance reflected the weak global markets generally.

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Offshore Equities

Some of the dramatic events which took place during September are as follows: (i) the US government placed the nation's troubled mortgage giants Fannie Mae and Freddie Mac under "conservatorship", pledging to provide as much as US\$200 billion to help the firms manage their expected mortgage related losses; (ii) the US Government seized control of AIG, one of the world's biggest insurers in an US\$85 billion bail-out; (iii) the US Government declined to bail out Lehman Brothers, which filed for bankruptcy protection, while Merrill Lynch, Morgan Stanley and Goldman Sachs all looked vulnerable; (iv) Merrill Lynch sold itself to Bank of America, while the US Fed allowed Morgan Stanley and Goldman Sachs to change their status from investment bank to bank holding company and the companies sought fresh capital; (v) central banks around the world made a co-ordinated attempt to pump billions of dollars of short-term liquidity into the markets; (vi) a few money market funds in the US "broke the buck", forcing the US Treasury to extend federal insurance to money market funds; and (vii) the US government drafted proposals for a US\$700 billion funded entity that would purchase distressed mortgage assets to help restore confidence in the financial markets to allow them to revert back to normal, but the bill was voted down in the House of Representatives.

Distress was not confined to the US market. In the UK, the Government brokered an emergency sale of HBOS, the country's biggest mortgage lender, to Lloyds TSB and then followed up with the nationalisation of Bradford and Bingley. In Europe, the Benelux countries injected capital into Fortis NV; a trio of countries supported Belgian-French lender Dexia; and the German government, with a consortium of banks, rescued major real estate lender Hypo Real Estate. To stem the lack of confidence in the banking system in Ireland, its government guaranteed deposits, covered bonds, senior debt and dated subordinated debt of the entire Irish banking system for two years.

Monthly Market Insight NZ Economic Focus

Following a run of awful economic activity data in the first half, data were mixed in the second half. GDP data confirmed that the economy entered recession in the first half, but it was not obvious that the recession extended into the second half. Key positives were increases in business and consumer confidence. Inflation data remained strong, but leading indicators, such as much lower oil prices and a weaker labour market, suggested an easing of pressures going forward.

NZ GDP fell by 0.2% QoQ in the June quarter (up 1.0% YoY), confirming that the economy was in recession over the first half of the year. The economic slowdown has been broadly based. From an expenditure perspective, growth in 2Q was weak across consumer spending, residential investment and exports. Business investment was also weak, excluding some chunky oil equipment that was imported. One of the few areas of strength remained the government sector.

Private consumption fell by 0.2% QoQ in the June quarter, the second consecutive quarterly fall. Anecdotes and timelier data such as credit card billings, electronic card transactions and retail sales pointed to a sluggish September quarter for consumer spending, but rising levels of confidence and forthcoming tax cuts suggested a better end to 2008 is in store.

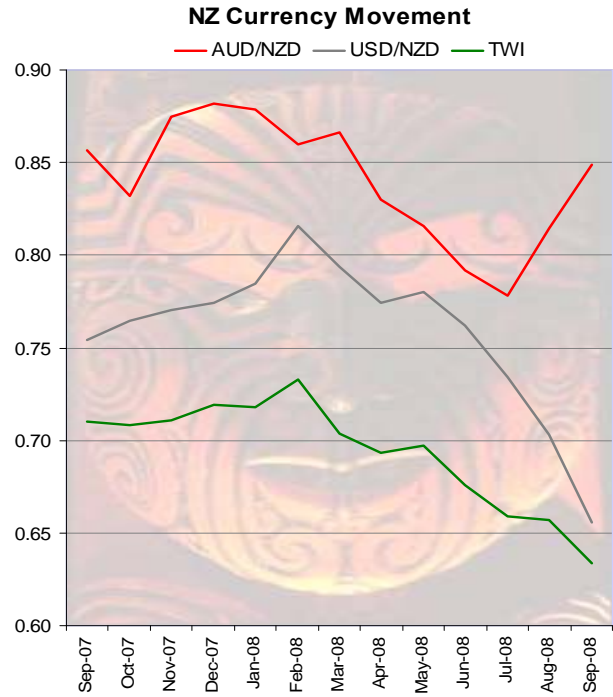
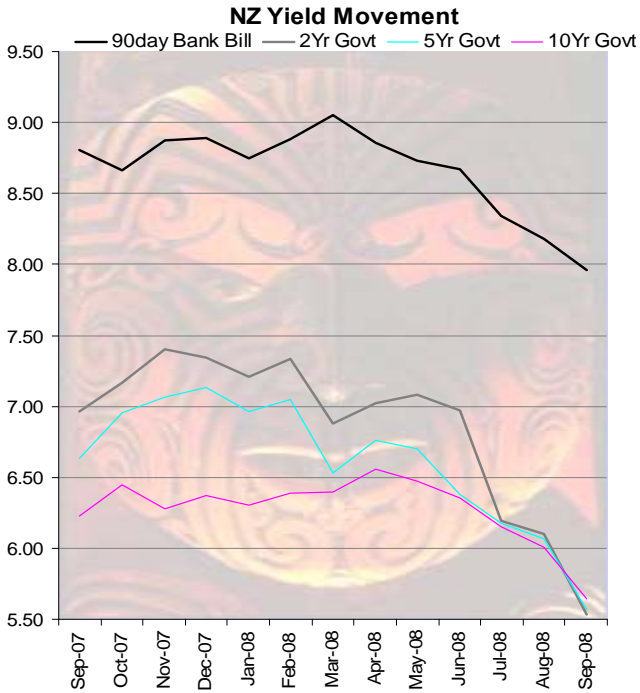
Consumer confidence recovered strongly on all three measures we monitor off very depressed levels, driven by lower petrol prices and lower interest rates. The preferred Westpac measure rose sharply to 104.8, albeit still below the long run average of 112.

Turning to the housing market, data were mixed. House sales showed a flat trend over the past six months and for the three months ending August, they were down by 37% YoY. Prices remained on a modestly declining trend. For the three months ending August, the median sales price fell by 3.1% YoY on REINZ data, while the average price was down 4.5% YoY on Quotable Value data.

On a more positive note, housing loan approvals showed signs of improving, with the number of approvals down by 16.6% YoY in the week ending 19 September compared to a trough of -28% in mid-July.

Market Data Summary

| Equities (gross return) | Level | 1M | 3M | 6M | 1Y | 3Y | 5Y | 10Y |
|--------------------------------------|----------|--------|--------|--------|--------|-------|-------|-------|
| NZX50 | 3,090 | -7.8% | -3.3% | -11.0% | -27.6% | -3.6% | 6.3% | 9.1% |
| ASX200 (Local) | 30,339 | -9.8% | -10.4% | -12.0% | -26.8% | 4.0% | 12.4% | 10.5% |
| ASX200 (NZD) | | -13.5% | -16.4% | -10.2% | -26.0% | 6.4% | 13.1% | 10.4% |
| MSCI World (Local) | 1,996 | -10.8% | -11.4% | -12.3% | -25.1% | -0.8% | 6.0% | 3.0% |
| MSCI World (NZD) | | -5.6% | -1.5% | 0.9% | -15.0% | 2.5% | 5.2% | 1.1% |
| NZX50 / ASX200(NZD) comp | | -10.7% | -9.9% | -10.6% | -26.8% | 1.4% | 9.7% | 9.7% |
| Bonds (gross return) | Level | 1M | 3M | 6M | 1Y | 3Y | 5Y | 10Y |
| NZX 90 Day Bank Bill | 534.50 | 0.7% | 2.1% | 4.4% | 9.0% | 8.3% | 7.5% | 6.6% |
| NZX Govt Bond Index | 1,004.10 | 2.1% | 4.2% | 6.2% | 9.8% | 6.4% | 6.1% | 6.3% |
| NZX Composite A Grade | 2,729 | 1.8% | 4.0% | 6.6% | 9.6% | 6.4% | 6.1% | 6.3% |
| Property (gross return) | Level | 1M | 3M | 6M | 1Y | 3Y | 5Y | 10Y |
| NZX Property | 2,072 | 3.9% | -4.3% | -5.6% | -15.7% | 4.0% | 9.6% | 10.6% |
| ASX200 Property (Local) | 26,823 | -5.8% | -1.3% | -16.6% | -40.4% | -3.5% | 6.2% | 7.3% |
| ASX200 Property (NZD) | | -9.6% | -7.9% | -14.8% | -39.9% | -1.3% | 6.9% | 7.3% |
| Currencies (% change) | Level | 1M | 3M | 6M | 1Y | 3Y | 5Y | 10Y |
| AUD / NZD | 0.8486 | 4.2% | 7.2% | -2.0% | -1.0% | -2.3% | -0.6% | 0.1% |
| USD / NZD | 0.6557 | -6.7% | -13.9% | -17.4% | -13.0% | -1.7% | 2.0% | 2.7% |
| NZ TWI | 63.4 | -3.5% | -6.2% | -9.9% | -10.7% | -3.3% | 0.4% | 1.3% |
| Interest Rates (basis points) | Level | 1M | 3M | 6M | 1Y | 3Y | 5Y | 10Y |
| 90 Day NZ Bank Bill | 7.96 | -22 | -71 | -95 | -85 | 73 | 279 | 275 |
| 10 Year NZ Govt Bond | 5.65 | -36 | -70 | -74 | -58 | -21 | -14 | -1 |
| 10 Year US Govt Bond | 3.85 | 2 | -14 | 40 | -74 | -49 | -11 | -59 |
| Commodities (% change) | Level | 1M | 3M | 6M | 1Y | 3Y | 5Y | 10Y |
| Oil Prices (US\$/WTI) | 100.64 | -13% | -28% | -1% | 23% | 15% | 28% | 20% |
| CRB Index | 345.5 | -12% | -25% | -11% | 4% | 1% | 7% | 5% |



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

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