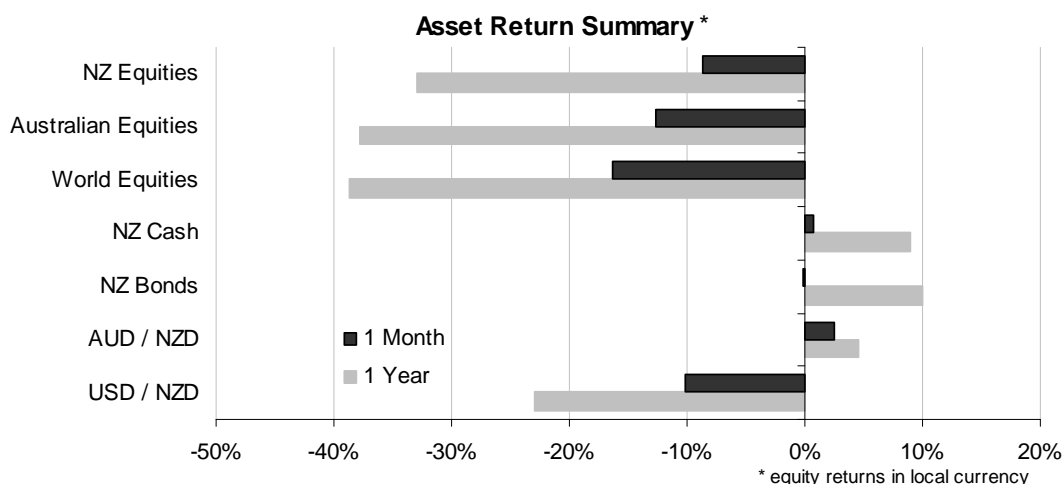


He moana pukepuke e ekengia e te waka
(A choppy sea can be navigated)

TMF Limited: Monthly Market & Sector Review – October 2008

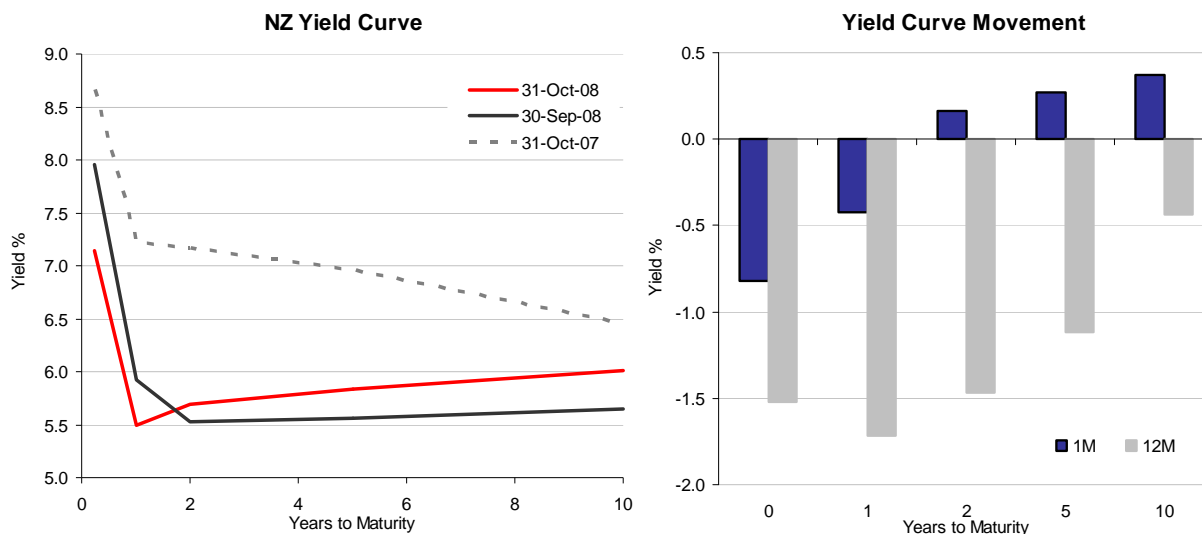
Market Overview



- Equity markets continued to weaken over October as the fallout of the global economic crisis intensified. The ongoing financial crisis is resulting in a substantial deterioration in the global economic outlook and heightened downside risks. Shrinking bank balance sheets mean credit will remain tight and lending to households and businesses will remain very constrained on a global scale.
- October is traditionally a bad month for equities and this October was one of the worst performing months since the 1970's. In their home currencies, the US S&P500 fell 16.9%, the Australian ASX/S&P200 dropped 12.6% and the Japanese NIKKEI 225 fell a massive 23.8%. In comparison the NZSE50 Index fell a modest 8.7%.
- Commodity prices fell with oil sliding from \$100 USD a barrel to \$67. Copper and zinc prices also came off by more than 30%.
- The world economy is on the verge of recession. The new news is that Chinese growth is slowing very sharply under the weight of export and property sector decline. Investors remain risk adverse as fears of the global recession increase. While government policy intervention will help to contain the slowdown, it is unlikely to reverse it.
- New Zealand bonds had muted performance for the month with longer maturity bond rates moving fractionally higher.

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NZ Cash & Fixed Interest



The Reserve Bank of New Zealand (RBNZ) has aggressively cut 175 basis points (bp) off the Official Cash Rate over the past 4½ months. The risk aversion associated with increased uncertainty and reduced investor confidence has seen the cost of offshore funding increase dramatically, contributing to the RBNZ cutting rates by 50bp in September in order to bring borrowing costs lower. By October, the financial crisis had escalated, international credit markets had stopped functioning and the economic outlook had deteriorated rapidly, prompting the RBNZ to bring anticipated rate cuts even further forward, cutting 100bp. The markets are expecting the RBNZ to cut a further 75 to 100 bp in December.

NZ Equities

NZ equities were not immune to the global fallout over October. Although NZ cannot escape the global impacts, it can and will put up some buffers to help absorb the impact. The NZ dollar has lost ground this year, which will provide insulation against weaker global demand. The RBNZ has also moved very swiftly to drop interest rates by 175bp to date in response, including an unprecedented 100bp drop on October 23rd. October’s tax cuts have also arrived at an opportune time. There is good news on the price front as well: petrol prices have retreated noticeably and the more recent vegetable price increases are subsiding. Bit by bit we will have more money left over for discretionary spending. These factors will help to turn the NZ economy around next year, though expect a very slow recovery. There remain many challenges ahead on the global front that have yet to make their presence felt.

Australian Equities

Australian equities declined, hit not only from the global stock falls but also due to the lower commodity prices in which the Australian market has a heavy weighting. Declines in property related stocks were another factor.

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Offshore Equities

Global markets weakened dramatically over October with falling commodity prices, and fears of recession gripping the markets.

US and European governments and their central banks are injecting capital into needy banks, guaranteeing wholesale funding, making liquidity (cash) available, and in the case of the US buying up impaired assets to hasten the cleaning up of bank balance sheets. These various measures have two primary objectives: keeping troubled entities on their feet and – most importantly – giving investors and banks confidence that they can lend to banks without fear of default. Restoring confidence is critical to the smooth functioning of credit markets.

The Japanese market suffered from renewed fears over the Chinese economy as well as the strengthening yen which adversely impact the large Japanese car makers and consumer related exporters.

Monthly Market Insight Housing market weakness endures

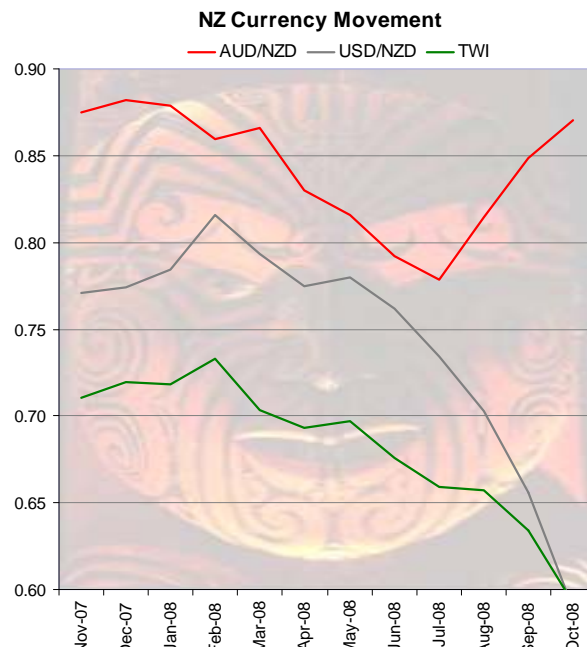
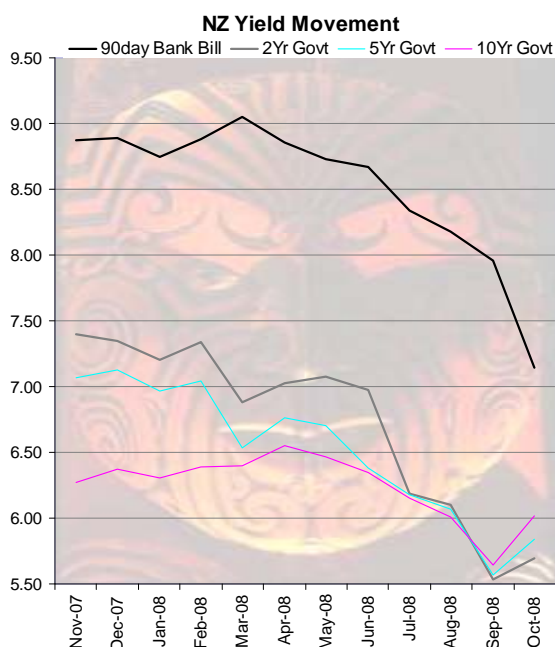
Housing demand has weakened dramatically over the past year, with housing turnover down around 50% from early 2007. The fall in sales has seen the number of available listings steadily increase, creating a large oversupply on the market. Some would-be sellers, unwilling to accept lower house prices, have opted to turn to the rental market instead, creating a large supply of rental housing.

One fundamental factor behind lower housing demand is weak net migration inflows, influenced by strong outflows to Australia. In addition, mortgage rates (whilst down from their peaks earlier this year) remain above historical averages. With high food and fuel prices eating away at households' disposable incomes, and the labour market starting to weaken, potential home buyers have become more circumspect on prices they have been willing to pay. Already house prices have dropped around 6% on year-ago levels and we expect house price deflation to reach 10% by year-end. House prices have been fundamentally overvalued for sometime, and the correction will be slow and drawn out.

Waning demand for housing and falling house prices have reduced the incentives to build new houses, and by the June quarter residential investment had already fallen 15% from year-ago levels. We expect residential construction to continue declining for at least another year. Lower credit availability and low income growth will keep house prices and construction demand weak. However, ongoing population growth will lead to a situation of pent-up demand for new housing, and along with lower interest rates, will encourage a recovery in residential construction over 2010.

Market Data Summary

Equities (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX50	2,821	-8.7%	-15.4%	-22.2%	-33.0%	-5.0%	4.1%	7.0%
ASX200 (Local)	26,515	-12.6%	-18.0%	-26.5%	-37.8%	0.7%	8.7%	8.8%
ASX200 (NZD)		-14.8%	-26.7%	-29.9%	-40.5%	3.3%	8.6%	8.5%
MSCI World (Local)	1,669	-16.4%	-24.5%	-30.9%	-38.7%	-5.9%	1.2%	0.5%
MSCI World (NZD)		-9.8%	-12.2%	-15.6%	-24.5%	0.5%	2.5%	-0.3%
NZX50 / ASX200(NZD) comp		-11.8%	-21.1%	-26.0%	-36.8%	-0.9%	6.3%	7.7%
Bonds (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX 90 Day Bank Bill	538.42	0.7%	2.1%	4.4%	9.0%	8.3%	7.6%	6.6%
NZX Govt Bond Index	998.38	-0.6%	2.5%	5.8%	9.5%	6.2%	6.2%	6.0%
NZX Composite A Grade	2,724	-0.2%	2.5%	6.1%	10.1%	6.4%	6.2%	6.1%
Property (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX Property	1,879	-9.3%	-9.2%	-16.1%	-24.8%	0.6%	7.2%	8.4%
ASX200 Property (Local)	20,073	-25.2%	-22.2%	-40.1%	-55.2%	-11.8%	-0.2%	4.4%
ASX200 Property (NZD)		-27.0%	-30.5%	-42.9%	-57.2%	-9.6%	-0.3%	4.1%
Currencies (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
AUD / NZD	0.8703	2.6%	11.8%	4.9%	4.6%	-2.5%	0.1%	0.3%
USD / NZD	0.5889	-10.2%	-19.8%	-24.0%	-23.0%	-5.7%	-0.7%	1.1%
NZ TWI	59.2	-6.6%	-10.2%	-14.6%	-16.4%	-6.2%	-1.2%	0.6%
Interest Rates (basis points)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
90 Day NZ Bank Bill	7.14	-82	-120	-172	-152	-22	190	246
10 Year NZ Govt Bond	6.02	37	-13	-54	-43	10	-13	63
10 Year US Govt Bond	4.01	16	2	24	-47	-56	-32	-63
Commodities (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
Oil Prices (US\$/WTI)	67.81	-33%	-45%	-40%	-28%	4%	18%	17%
CRB Index	268.4	-22%	-36%	-34%	-24%	-5%	2%	3%



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

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