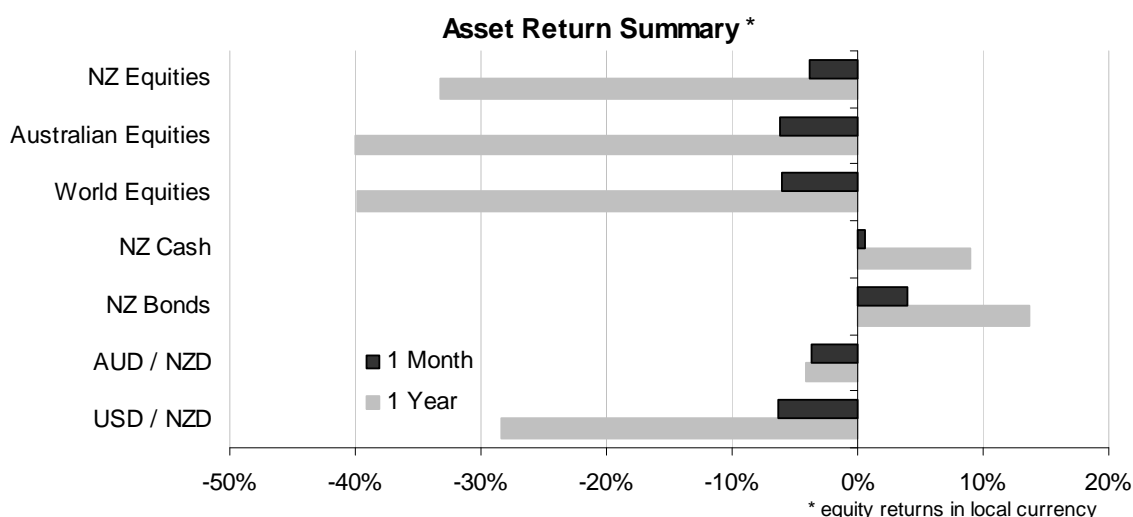


He moana pukepuke e ekengia e te waka.
(A choppy sea can be navigated)

TMF Limited: Monthly Market & Sector Review – November 2008

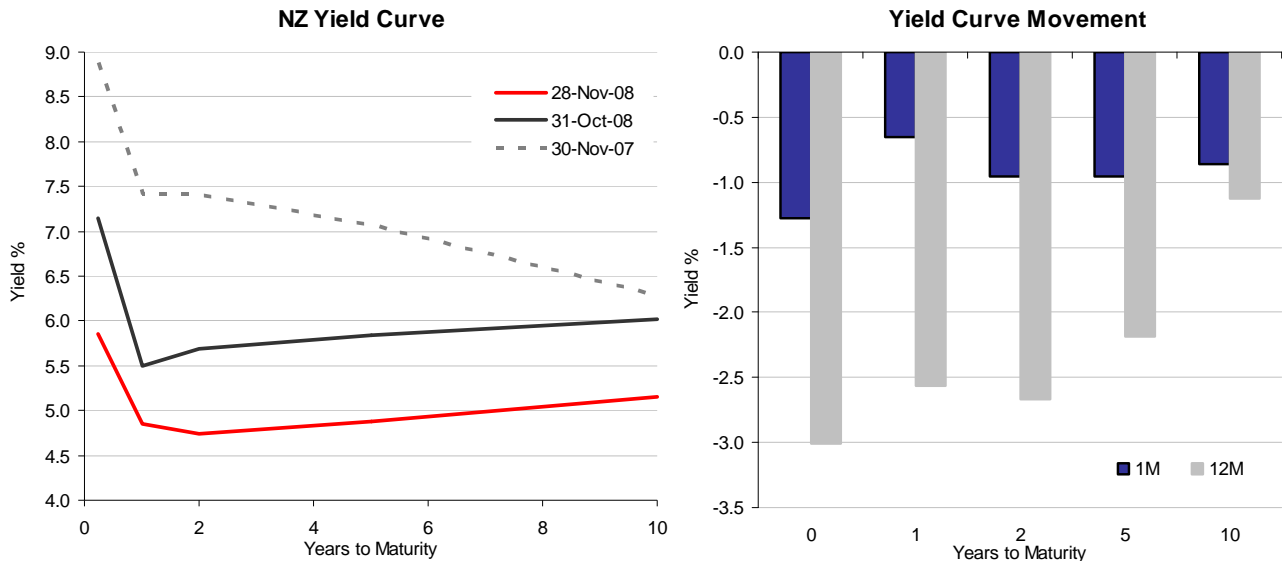
Market Overview



- Volatility and risk aversion dominated trading on global and NZ financial markets during November. While various measures of fear did recede somewhat from the extreme panic of mid-late October, they were yet to fully normalise by month's end.
- Equity markets experienced extreme levels of pricing volatility due to a mixture of liquidity fleeing to perceived safe havens and the fundamental reality of a number of earnings downgrades as the global economic recession began to bite. These factors affected the NZ equity market to a degree, with the NZX50 Gross Index falling by 3.9% in the month.
- The NZ election result of a National-led minority Government accorded with prior expectations and averted the risk of an inconclusive outcome.
- Global and domestic deflationary pressures were highly supportive for fixed interest markets. NZ 90-day bank bills rallied from 7.15% to 5.86% and 10-year government bond yields rallied from 6.04% to 5.15%.
- The performance divergence between domestic asset classes has become extreme, with the NZX Composite A Grade Bond Index delivering a 12-month return of +13.6%, while the NZX50 Gross Index has delivered -33.3%.
- Commodity prices largely continued to weaken during the month on a combination of a marked slowdown in global demand and a stronger USD. The benchmark copper price fell from NZ\$1.88/lb to NZ\$1.62/lb and WTI oil fell from NZ\$68 to NZ\$54/bl. The one exception was gold which shook off recent weakness and rose from NZ\$723/oz to NZ\$816/oz.

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NZ Cash & Fixed Interest



Over November, the Reserve Bank of New Zealand’s (RBNZ) Official Cash Rate (OCR) was unchanged at 6.5%. However as the month progressed, expectations for the next rate cut grew from 1.0% to a massive 1.5% by the end of the month. Subsequently on 4 December, the RBNZ did cut the OCR by 1.5% to 5.0%.

As the graph above depicts, government bond interest rates fell heavily across the entire yield curve over the month as the market came to terms with the weakness in the economy and the realisation that the RBNZ will act decisively in order to support the economy.

The general flight from risk was global with US 10 year government bond yield falling from 4.01% to 2.93% over the month of November.

The global outlook continues to dominate the outlook for the NZ dollar. Primarily, the two factors that are dictating moves in the kiwi dollar are risk aversion/deleveraging and falling commodity prices. Both of these are likely to be factors for the NZ dollar direction in the near future.

NZ Equities

Thanks to a weakening of the NZDAUD cross-rate over the month, four of the better performing stocks in the NZX50 Index were the Australian domiciled Lion Nathan, APN News & Media, Telstra and AMP Limited.

Other strong relative performers were Pumpkin Patch, which after a sharp fall mid-month on balance sheet concerns, rose after it surprisingly announced a share buy-back; Telecom NZ which had been heavily sold in October but which regained some favour thanks to its relative earnings safety and high yield; and NZ Refining, which rose as the impact of the weaker NZD seem to outweigh lower benchmark refining margins.

The worst performing stock was Nuplex, which warned late in the month of a sharp deterioration in demand which was more than offsetting input cost relief. The market also focused on its balance sheet in an environment where anything but a pristine position is being punished.

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Other weak performers were Pike River, which followed its global mining peers lower; NZ Farming Systems, where sharp falls in dairy prices outweighed the weaker NZD; Infratil, which was affected by sentiment regarding infrastructure woes in Australia; Michael Hill, as discretionary retail had a very difficult month globally; and Sky Network Television, on fears of soft demand and the impact of the weaker NZD on their cost base once their hedging expires.

Australian Equities

The S&P/ASX 200 came off 6.3% in November, an improvement from October's 12.66% decline. Resource stocks recovered slightly in the month while the performance of banks and financials was poor.

Offshore Equities

Similarly, equity markets elsewhere endured around half the losses in November that they encountered in the previous month with the exception of the Nikkei, which had a major recovery losing only 0.75% in November after losing 23.83% in October.

The authorities in the US, China and elsewhere took unprecedented actions during the month to try to shore up confidence in their financial markets and economies.

The US Fed announced new measures on Nov 25 which many viewed as amounting to quantitative easing. The Fed will buy up to NZ\$600bn of agency debt and mortgage backed securities with the objective of reducing the spreads at which they were trading, and thence reduce mortgage rates. Separately, a new TALF facility will see the Fed lend up to NZ\$200bn to holders of AAA-rated ABS backed by assets such as credit cards and auto loans. Both measures are sizeable relative to outstanding and projected future supply.

The US government has bailed out Citigroup, injecting US\$20 billion of new capital.

China announced a massive US\$586bn fiscal package that will reach 18% of 2007 GDP by the end of 2010. There was market scepticism as to whether this included measures that had previously been announced but it was a huge move nonetheless. Near month's end, China cut lending rates by 108 basis points, the largest single cut since the 1997 Asia crisis.

Monthly Market Insight

NZ Commodity Prices

The CBA NZ Commodity Price Indices fell in all denominations during the last week of November as USD commodity prices fell, and the NZD lifted. Dairy prices have fallen significantly over the past few months, but how do they now compare to what they were prior to the 2007 boom period? Butter, Cheddar and Casein are all still well above averages prior to 2007. Skim Milk Powder is now sitting around the average of the period 2000-07. Whole Milk Powder is now only slightly above the average over the same time period.

However, if the current down trend continues, there is a significant risk spot prices will fall below the long term average. As anticipated, demand for lamb products is beginning to ease and this is reflected in the price weakening over the past few weeks. NZX Agrifax reports that buyers in the UK are now holding off until after the Christmas period before purchasing any additional product. This has been a change from previous years when buyers have been consistent in their buying over this period. Beef prices continue to ease both locally and

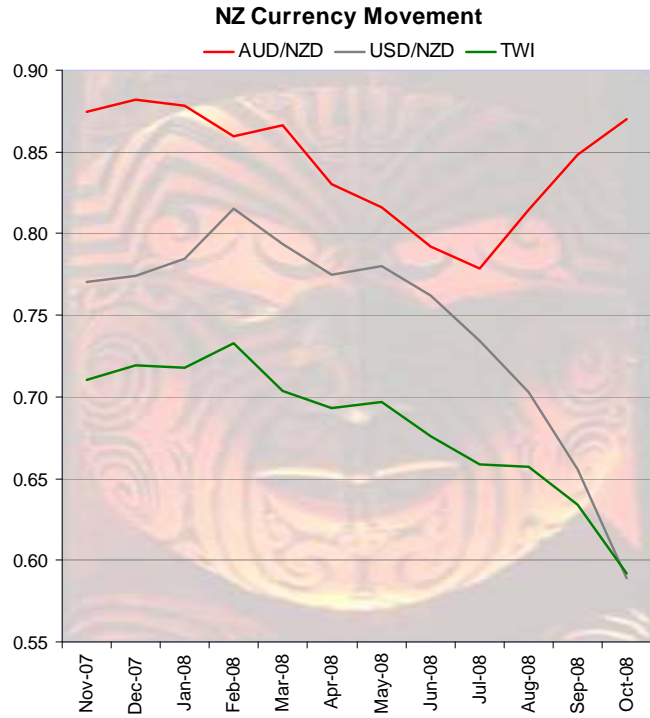
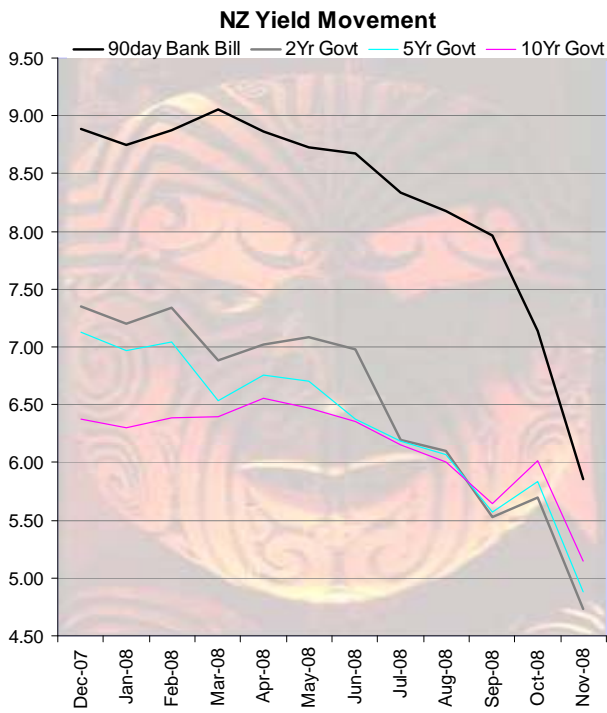
internationally. Price competitiveness for products such as pork and chicken is meaning the demand for beef has fallen. Input costs for these products have decreased significantly over the past few months.

The global turmoil has been impacting NZ forestry exports as demand in importing countries weakens. In our key markets such as China, GDP forecast have been cut over the past few months as the credit crisis bites. In China, housing and construction is expected to slow considerably.

The big news from Russia over the last year relates to exports tariffs on their unprocessed logs. Russia has implemented tariff increases, as part of a move to support the local processing industry. This news was positive for the NZ logging industry, given our export markets in North Asia and their proximity to Russia. For example, China imports a significant volume of logs, and depends heavily on Russian supply.

Market Data Summary

Equities (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX50	2,711	-3.9%	-19.2%	-25.2%	-33.3%	-6.5%	2.9%	5.9%
ASX200 (Local)	24,870	-6.2%	-26.1%	-32.1%	-40.0%	-2.8%	7.7%	7.5%
ASX200 (NZD)		-2.7%	-28.2%	-33.9%	-37.4%	1.3%	8.9%	7.5%
MSCI World (Local)	1,568	-6.1%	-29.9%	-36.1%	-39.8%	-9.1%	-0.2%	-0.9%
MSCI World (NZD)		-0.1%	-14.9%	-16.4%	-20.8%	-0.8%	3.1%	-0.9%
NZX50 / ASX200(NZD) comp		-3.3%	-23.7%	-29.6%	-35.3%	-2.6%	5.9%	6.7%
Bonds (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX 90 Day Bank Bill	541.86	0.6%	2.1%	4.3%	9.0%	8.4%	7.6%	6.7%
NZX Govt Bond Index	1,040.29	4.2%	5.8%	9.3%	13.4%	7.4%	7.0%	6.5%
NZX Composite A Grade	2,831	3.9%	5.6%	9.5%	13.6%	7.5%	7.0%	6.5%
Property (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX Property	1,869	-0.5%	-6.2%	-17.4%	-22.5%	-2.0%	6.9%	7.3%
ASX200 Property (Local)	20,123	0.2%	-29.3%	-34.0%	-52.1%	-12.7%	-0.7%	4.0%
ASX200 Property (NZD)		4.0%	-31.4%	-35.8%	-50.0%	-9.0%	0.4%	4.0%
Currencies (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
AUD / NZD	0.8388	-3.6%	3.0%	2.8%	-4.1%	-4.1%	-1.1%	0.0%
USD / NZD	0.5516	-6.3%	-21.5%	-29.3%	-28.4%	-7.7%	-2.9%	0.4%
NZ TWI	55.7	-5.9%	-15.2%	-20.1%	-21.6%	-8.5%	-3.1%	-0.2%
Interest Rates (basis points)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
90 Day NZ Bank Bill	5.86	-128	-232	-287	-301	-182	48	176
10 Year NZ Govt Bond	5.15	-87	-86	-132	-113	-69	-113	-42
10 Year US Govt Bond	2.93	-108	-90	-113	-104	-156	-141	-181
Commodities (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
Oil Prices (US\$/WTI)	49.28	-27%	-58%	-61%	-44%	-5%	10%	16%
CRB Index	242.2	-10%	-38%	-43%	-29%	-8%	-1%	2%



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

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