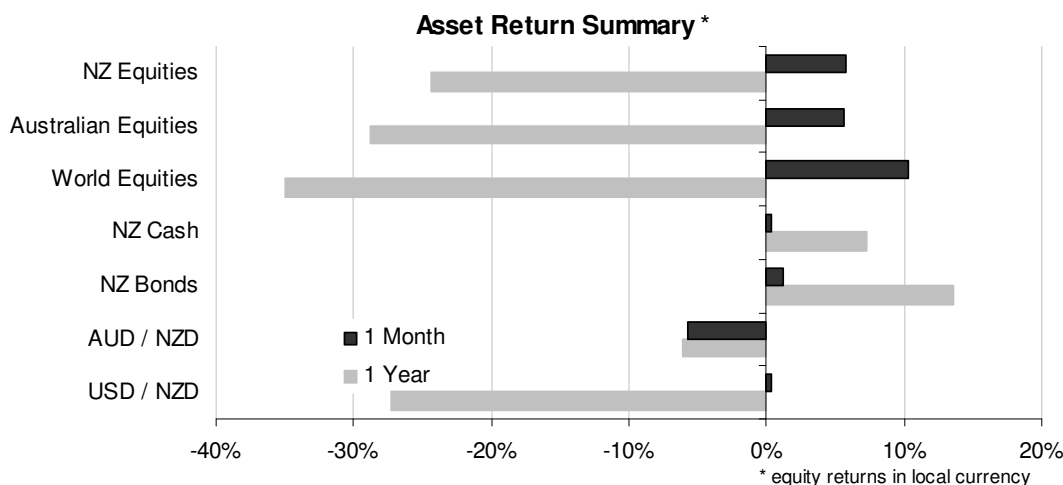


Ko nga Rangatira o te tau titoki!

(It is easy to imitate a chief in the years when the red titoki berry is plentiful)

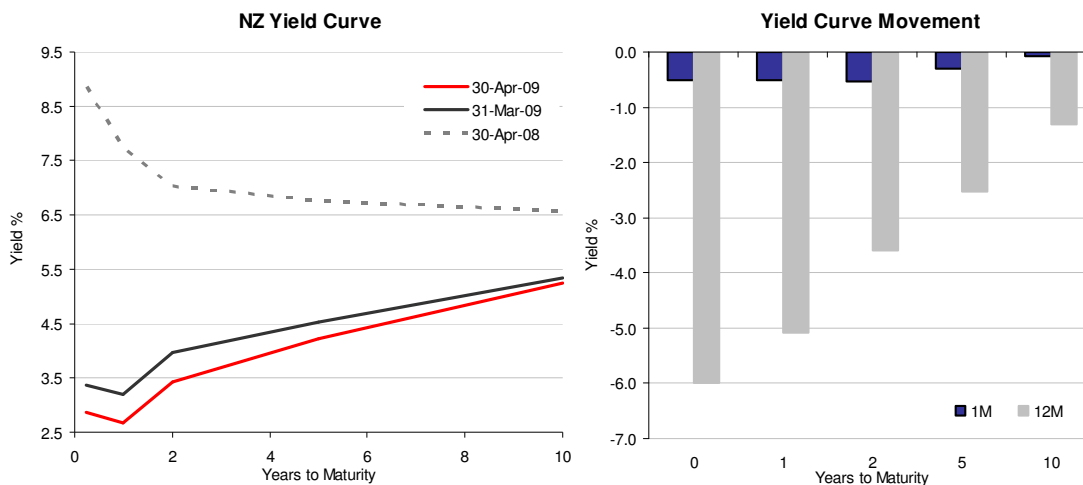
TMF Limited: Monthly Market & Sector Review – April 2009

Market Overview



- April was another positive month for equity markets with Australasian and overseas markets performing well as sentiment towards the global economy improves. Investors reduced “safe-haven” asset classes of cash and bonds and moved more into equity markets. The April G24 meeting communiqué helped to ease some of the uncertainty, noting that “some signs of stabilisation are emerging”.
- The US first quarter corporate earnings season was relatively encouraging. Several banks (including Goldman Sachs and JP Morgan) beat earnings estimates and some are now planning to pay back funds borrowed from the government.
- The Reserve Bank of New Zealand (RBNZ) applied further stimulus at its 30 April Official Cash Rate Review. The RBNZ cut rates 50 basis points to 2.50% and the accompanying statement noted that interest rates would remain at, or below, the current rate of 2.50% until the later part of 2010. While the RBNZ did acknowledge the recent signs of stabilisation in global markets, the central bank also warned of the high degree of uncertainty surrounding the way forward over the next year or so.
- While the RBNZ cut of 50 basis points was not a complete surprise to markets, their accompanying statement of lower rates for a longer period did surprise. This resulted in a lower New Zealand dollar (particularly against the Australian dollar) and for longer term interest rates to fall slightly after rising over the last two months.

NZ Cash & Fixed Interest



The RBNZ's April's statement was designed to combat the recent rise in monetary conditions, i.e. the rise in longer-term interest rates and the exchange rate. In particular, the RBNZ's expectation it will hold the OCR low until mid-2010 should help to anchor longer-term interest rate expectations. The message to borrowers is that there is no real hurry to fix rates, as there is still potential for further OCR cuts and longer-term interest rates will also remain low a little longer yet.

April's statement countered the surprisingly hawkish statement delivered in March. In March the RBNZ sent a strong signal it was slowing down the pace of rate cuts and was reluctant to cut the OCR below 2.5%. By indicating that the end of the easing cycle was near, the RBNZ triggered a rush of demand by borrowers to lock in long-term rates at low levels. The strong increase in fixing demand saw longer-term interest rates rise in wholesale markets.

While NZ longer term interest rates traded lower as a result of the RBNZ, the trend internationally, especially in the USA, has been for longer term interest rates to have increased with the US 10-year government rising 50 basis points to 3.15%.

NZ Equities

The NZ equity market had a good performance in April, helped by the offshore markets and corporate takeover activity.

Equity capital raising was a key theme in April. Fletcher Building raised \$405 million in an underwritten institutional placement. The company also announced a further \$60-100m share purchase plan. Other companies to raise capital were Sky City, Freightways and Kiwi Income Property.

The Japanese brewer, Kirin announced its intention to buy the remaining shares (56%) of Lion Nathan that it did not own, at a premium of around 47%.

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Australian Equities

Sentiment towards equities continued to improve during April with the Australian equity market (ASX200) finishing the month up 5.6%.

The best performing sectors in Australia were consumer discretionary and consumer staples, both of which returned over 11%. The outperformance of consumer discretionary, industrials and infrastructure reinforces investors' increasing risk tolerance, favouring cyclicals and Capex-exposed sectors over the defensive health care and telecommunications sectors. In contrast, Australian financials were among the worst performing sectors.

There are some extremely positive signals for the Australian market. Small caps returns were more than double those of the other Australian headline indices, confirming investors have had an increased appetite for risk. Another positive sign was the significant rises in all commodities prices excluding gold.

Offshore Equities

The US economy appears to be stabilising. Housing inventories are clearing and house prices are rising modestly. The unemployment rate is rising but not at a sufficiently rapid pace to cause further de-leveraging. Tax cuts and lower petrol prices are helping to stabilise consumer demand.

Europe and Japan are in severe recession. Reflecting the weak state of domestic demand, these economies have been highly sensitive to the downturn in exports and the US economy. But there are signs of modest recovery from a low base.

Offshore equity markets were buoyed by better than expected economic data and greater confidence in the banking sector, particularly after the release of profit results for the first quarter. US financial stocks rose 23.1% in April.

Monthly Market Insight

ASB Bank looks at the recent Household Labour Force Survey result.

The unemployment picked up to 5.0%, from 4.7% over the first quarter of this year, better than the 5.3% expected. Employment declined 1.1%, as expected given the weakness in the economy over the past nine months. Participation also declined, albeit from very high levels, falling to 68.4% from a record high of 69.1%. The degree of withdrawal from the labour market was more than many expected, and helped mute the rise in unemployment.

It is normal for the participation rate to decline when employment levels fall, particularly coming from a position of a very stretched labour market. Those exiting the labour market may choose not to look for new work, either for personal reasons or to continue studies. In addition, the weakening economy can produce a discouraged worker effect, in which job hunters give up the search as it becomes too difficult.

Overall, we think the employment result is a relatively resilient one considering the economic backdrop. With the economy in recession since the start of 2008, and the credit crunch presenting additional challenges since late 2008, firms are doing their best to hold onto staff levels. Anecdotally, although the news headlines have been pessimistic, we have heard stories of businesses adopting more flexible practices to protect jobs.

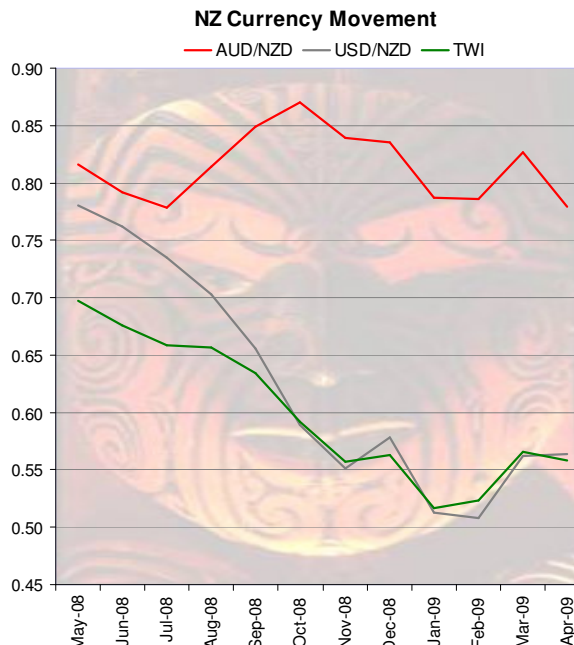
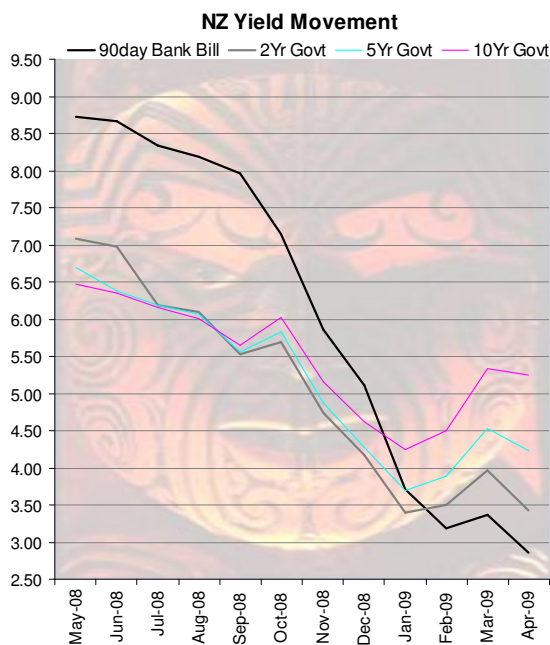
The bulk of the decline in employment came through in part-time jobs, down 3.1% compared to a 0.7% decline in full-time work. The loss in part-time jobs is also consistent with the bulk of lost jobs coming in the younger age groups over the past year (i.e. the 15-19 year olds, and 20-24 year olds). The drop-off in employment in these two age groups also may explain the drop in participation, as they are also more likely to opt for further training/tertiary education should finding a job become more difficult.

Outlook: further weakness

We expect further material declines in employment over the next couple of quarters as businesses continue to respond to the ongoing pressure put on by the recession. Over 2009 employment could conceivably fall 3.5% before stabilising in early 2010. The unemployment rate is still likely to approach 8% in the latter stages of 2010, though in 2009 the speed at which it rises may continue to be moderated by the extent to which labour participation falls. Either way, unemployment and underemployment are set to increase.

Market Data Summary

Equities (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX50	2,741	5.8%	-1.2%	-2.8%	-24.4%	-10.3%	0.8%	4.1%
ASX200 (Local)	25,664	5.6%	8.8%	-3.2%	-28.8%	-6.4%	6.7%	6.5%
ASX200 (NZD)		12.0%	9.9%	8.1%	-24.2%	-4.0%	8.9%	7.3%
MSCI World (Local)	1,572	10.3%	6.8%	-5.8%	-34.9%	-11.7%	-1.5%	-2.2%
MSCI World (NZD)		10.9%	-2.3%	-1.2%	-16.6%	-8.1%	0.9%	-1.7%
NZX50 / ASX200(NZD) comp		8.9%	4.4%	2.6%	-24.3%	-7.2%	4.9%	5.7%
Bonds (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX 90 Day Bank Bill	552.88	0.3%	0.9%	2.7%	7.2%	8.0%	7.6%	6.7%
NZX Govt Bond Index	1,070.22	0.7%	-1.6%	7.2%	13.4%	7.5%	7.1%	6.5%
NZX Composite A Grade	2,914	1.2%	-1.4%	7.0%	13.5%	7.5%	7.1%	6.6%
Property (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX Property	1,682	-3.8%	-8.8%	-10.5%	-24.9%	-5.5%	3.5%	5.6%
ASX200 Property (Local)	14,445	6.1%	-11.2%	-28.0%	-56.9%	-23.6%	-8.6%	0.9%
ASX200 Property (NZD)		12.5%	-10.2%	-19.6%	-54.1%	-21.7%	-6.8%	1.8%
Currencies (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
AUD / NZD	0.7790	-5.7%	-1.1%	-10.5%	-6.1%	-2.4%	-2.0%	-0.8%
USD / NZD	0.5638	0.3%	9.9%	-4.3%	-27.2%	-3.8%	-1.9%	0.1%
NZ TWI	55.8	-1.4%	7.9%	-5.7%	-19.5%	-4.3%	-2.5%	-0.8%
Interest Rates (basis points)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
90 Day NZ Bank Bill	2.86	-51	-85	-428	-600	-464	-291	-177
10 Year NZ Govt Bond	5.25	-9	100	-77	-131	-56	-90	-51
10 Year US Govt Bond	3.16	45	29	-85	-61	-191	-137	-220
Commodities (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
Oil Prices (US\$/WTI)	51.12	3%	23%	-25%	-55%	-11%	6%	11%
CRB Index	222.4	1%	1%	-17%	-46%	-14%	-4%	1%



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

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