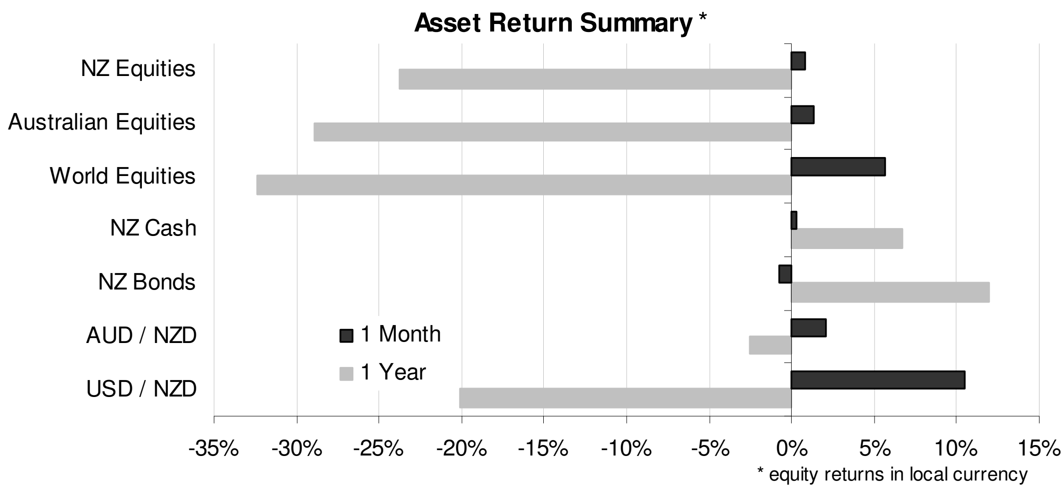
Na te hau mārire, me te wai marino, ka rere te waka
With gentle winds and a calm sea the canoe will sail at pace
'When conditions are good things progress with ease'

TMF Limited: Monthly Market & Sector Review – May 2009

Market Overview



- Equity markets consolidated recent gains during May with the NZSX50 Index rising 0.9% for the month, underperforming larger international equity markets. Investor confidence continued to improve as various economic data releases provided further evidence that the global business cycle has started to stabilise.

- New Zealand longer-term interest rates rose over May as a result largely from international factors. The rise in fixed interest yields had a negative effect on the market values for the end of May, reflected by the negative return for fixed interest for the month.

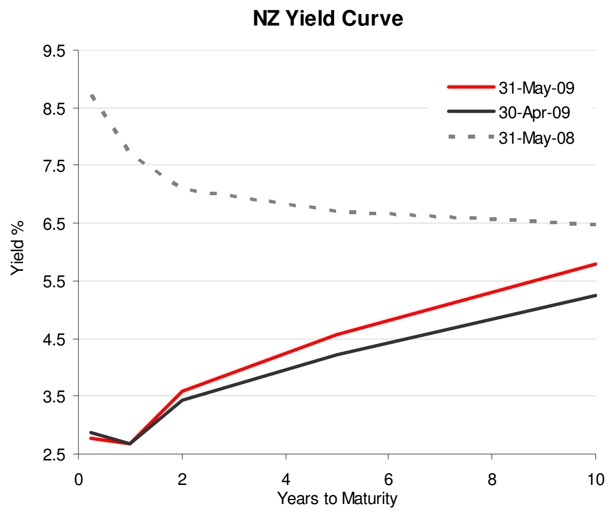
- The US dollar fell heavily over the month, based on speculation of a deterioration of U.S. credit worthiness. This resulted in the NZ dollar rising 10.5% over May against the US dollar and also increasing against other currencies, but by a lesser amount.

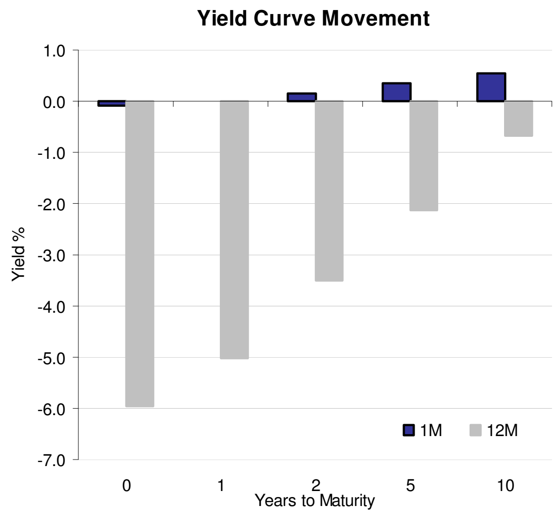
- The US dollar fall also had an effect on commodities with commodity prices increasing strongly as investors sought assets to counteract the fall of the US dollar. Crude oil prices rose 29.7% to a six month high, gold was up 10.6% and other metals were also up strongly over May.

- Although international equity markets performed strongly over May, their net return to NZ investors was undermined by the stronger NZ dollar.

- The NZ Budget which was released in the last week of May was viewed generally as being prudent with no major surprises. New Zealand's credit rating was taken off "negative watch" with the outlook back to "stable".

NZ Cash & Fixed Interest





New Zealand short-term interest rates were little changed over the month. The financial market appears equally divided on whether the Reserve Bank of New Zealand (RBNZ) will hold the Official Cash Rate (OCR) steady or cut further in the near future. The lack of any real economic stimulus from the NZ Budget adds support for the RBNZ to keep rates steady to down in the foreseeable future.

Longer-term interest rates, on the other hand, rose over May, heavily influenced by the movements in the US and other international bond markets. The NZ Government intends to issue a greater level of long-term debt to finance its deficit. This was factored in before the Budget and therefore came as no surprise when the Budget was announced.

International markets are also faced with greater debt issuance from governments as they finance their various bank bailouts and expenditures designed to stabilise the financial system and create a more stimulatory economic environment.

NZ Equities

NZ equities ended May 0.9% higher after a strong rise during April. Company results were generally as expected in the tough economic climate. Management remain cautious with regards future profitability, however there appears to be evidence of stabilisation occurring.

Fisher & Paykel Appliances announced Haier, a large Chinese appliance manufacturer, as a cornerstone investor as well as the proposed raising of $189 million in further capital.

The NZ Budget was viewed as economically prudent, and although no tax cuts were announced, the positive effect on New Zealand's credit rating outlook was viewed as helpful.

Australian Equities

Australian equities were positive over May but lost value to New Zealand based investors due to the rise of the NZ dollar against the Australian dollar.

The best performing Australian sectors were materials and energy which rose with oil and commodity prices. Other sectors in the Australian market were weighed down by a plunge in business investment and lifting of the short selling ban. Banks and financials were weighed down by rising bad debt charges.

Offshore Equities

International equities performed strongly in May as investor confidence grew that the global business cycle had begun to stabilise, adding further weight that the lows in equities were seen in March of this year.

Although in local currency terms the MSCI performed +5.6%, in NZ dollar terms there was a drop of 1.3% due to the stronger NZ dollar.

Growth momentum appears to have turned in the US, but recovery looks fragile. Housing is showing initial signs of stabilisation and retail sales are expected to rise due to further income tax decreases.

Europe and Japan have experienced the worst contractions in output in a generation. However, there are tentative signs of recovery from the lower base. Whether recovery can be sustained depends on the state of the global economy, as domestic demand in these economies remains quite weak, and policy actions are proving ineffective.

Chinese growth momentum has improved on the back of aggressive bank lending and policy stimulus. Much of this has been directed towards infrastructure.

Overall there are encouraging signs of a pick-up in economic activity in 2010. The remainder of 2009 is expected to remain volatile.

Monthly Market Insight
The New Zealand Budget 2009

The Budget showed a sizeable lift in Government debt levels over the next few years. The operating balance is not expected to come into surplus until year 2019, making for 10 years of operating deficits.

The major initiatives to rein in the expenditure side were to axe the 2010 and 2011 scheduled tax cuts and to introduce a contribution holiday to the NZ Superannuation Fund. The suspension of the NZ Superannuation Fund contributions is to be until sufficient cashflow is generated from the operating account. This is estimated to be in the 2020/21 fiscal year.

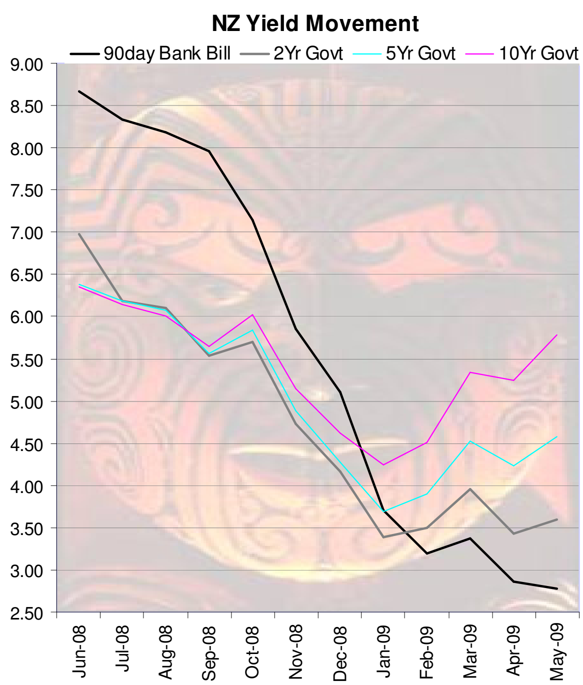
In the Budget, the Government focussed on three objectives:

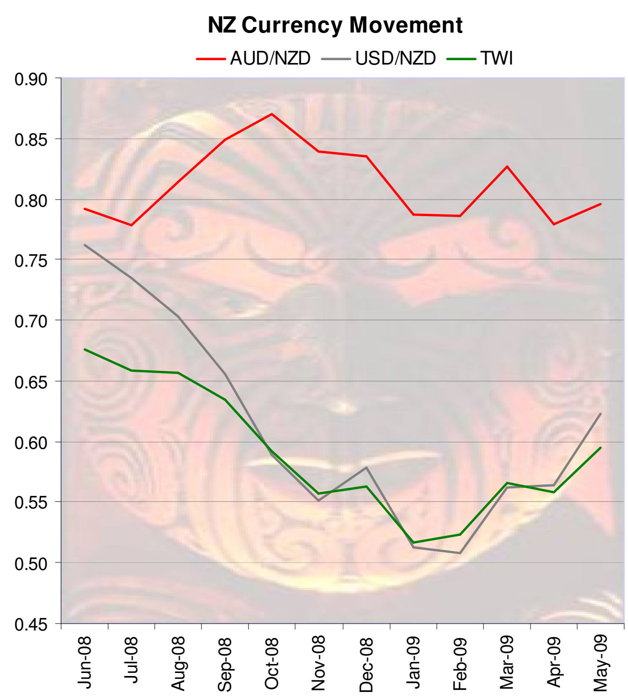
- Helping New Zealanders through the recession and supporting jobs;
- Lifting productivity and raising New Zealand's international competitiveness, and;
- Taking steps to keep government debt under control.

Credit rating agency, Standard & Poor's, who earlier this year put NZ on negative credit watch (an increased chance of a credit downgrade over the next 2 years), put the NZ's credit rating outlook back to stable after the release of the Budget.

Market Data Summary

Equities (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX50	2,764	0.9%	9.6%	2.0%	-23.7%	-8.5%	1.3%	5.1%
ASX200 (Local)	26,012	1.4%	15.5%	4.6%	-28.9%	-4.4%	6.6%	7.3%
ASX200 (NZD)		-0.7%	14.1%	10.3%	-27.1%	-2.7%	8.9%	7.7%
MSCI World (Local)	1,661	5.6%	23.9%	5.9%	-32.3%	-8.8%	-0.4%	-1.4%
MSCI World (NZD)		-1.3%	6.4%	-2.4%	-18.4%	-7.1%	0.8%	-1.8%
NZX50 / ASX200(NZD) comp		0.1%	11.9%	6.1%	-25.4%	-5.6%	5.1%	6.4%
Bonds (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX 90 Day Bank Bill	554.27	0.3%	0.8%	2.3%	6.7%	7.8%	7.5%	6.7%
NZX Govt Bond Index	1,061.12	-0.9%	-2.1%	2.0%	11.5%	7.0%	6.8%	6.6%
NZX Composite A Grade	2,895	-0.70%	-1.8%	2.2%	12.0%	7.1%	6.9%	6.6%
Property (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX Property	1,717	2.1%	-3.3%	-8.1%	-24.1%	-5.6%	3.8%	6.2%
ASX200 Property (Local)	14,993	3.8%	10.1%	-25.5%	-50.8%	-22.2%	-9.0%	1.8%
ASX200 Property (NZD)		1.7%	8.7%	-21.4%	-49.5%	-20.8%	-7.1%	2.1%
Currencies (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
AUD / NZD	0.7953	2.1%	1.2%	-5.2%	-2.5%	-1.8%	-2.1%	-0.4%
USD / NZD	0.6232	10.5%	22.6%	13.0%	-20.1%	-0.8%	-0.2%	1.5%
NZ TWI	59.5	6.6%	13.8%	6.8%	-14.6%	-2.1%	-1.4%	0.1%
Interest Rates (basis points)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
90 Day NZ Bank Bill	2.78	-8	-41	-308	-595	-470	-317	-190
10 Year NZ Govt Bond	5.79	54	128	64	-68	1	-43	-46
10 Year US Govt Bond	3.47	31	45	54	-59	-165	-119	-217
Commodities (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
Oil Prices (US$/WTI)	66.31	30%	48%	35%	-48%	-2%	11%	15%
CRB Index	253.1	14%	20%	4%	-40%	-10%	-2%	3%





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