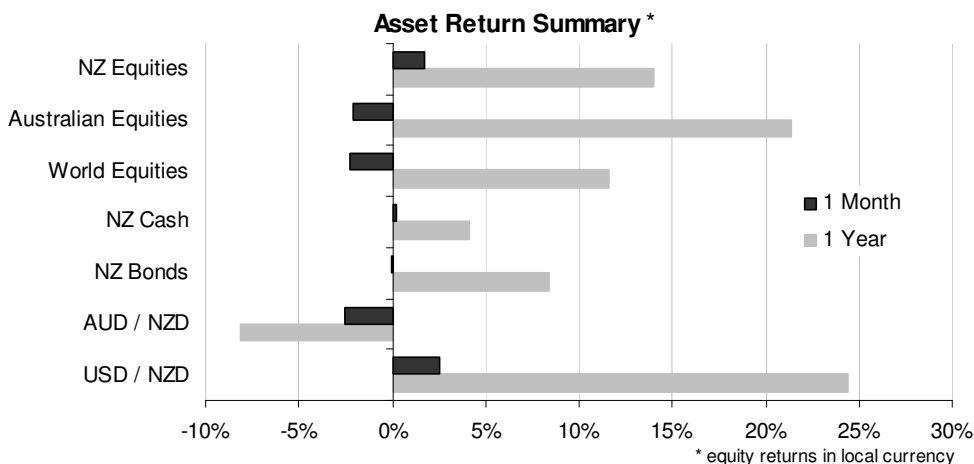


**He weuweu takitini, he pū takitahi**  
One seed, many outgrowths; all great things start from something small

**TMF Limited: Monthly Market & Sector Review – October 2009**

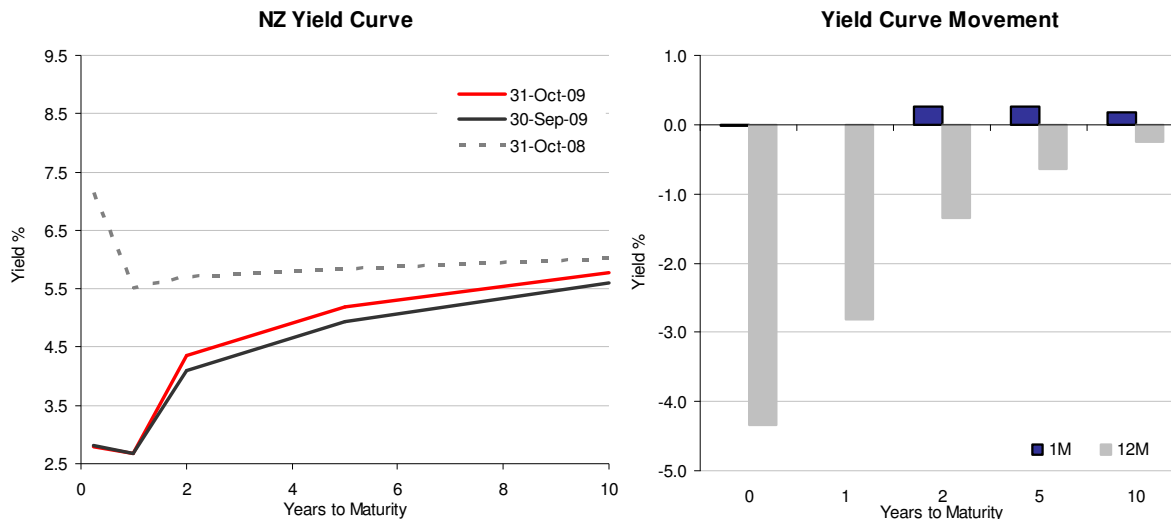
**Market Overview**



- The month of October lived up to its reputation for volatility, with global equity markets making solid gains in the first half of the month, giving way to weakness and large moves in the second half.
- After several months of good positive performances of both bonds and equities, October provided a pullback as investors reassessed the risks of the markets.
- Our benchmark fixed interest index recorded a slight negative return for the month as long-term interest rates rose over the period.
- As widely expected, the Reserve Bank of New Zealand (RBNZ) kept the Official Cash Rate (OCR) the same at 2.50% on 29 October. There was little change to short-term interest rates.
- New Zealand equities ended October 1.7% higher, extending the 2.0% gain in September. However Australian and other international equity markets closed weaker at the end of the month.
- As with equities, currency markets were also volatile over the month. At the end of October the NZ dollar closed weaker against the Australian dollar but stronger against the US dollar.

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**NZ Cash & Fixed Interest**



At the Official Cash Rate (OCR) review, the Reserve Bank expressed a clear intent to keep interest rates at a level which will foster the economic growth which is now beginning to emerge. On that basis it is difficult to see a rate increase before mid-2010. The recovery is still tentative both domestically and offshore and central banks appear determined to make sure that the recovery builds a sound base before interest rates begin to rise.

Longer maturity government bond yields rose over most of October, a trend that was shared globally. The key reason for much of the rise was a more positive outlook for global economic prospects.

For most of October, the NZ dollar surged, outperforming on most other currencies. However, in the last few days of the month its strength was reversed as investors reassessed their risk positions. The NZ dollar finished the month a little stronger against the US dollar but lower against the Australian dollar.

**NZ Equities**

NZ equities maintained their positive momentum over October, despite falls in many major international equity markets.

Domestic economic data continued to be supportive of positive economic growth for the remainder of 2009. Retail sales for August rose 1.1% after posting a small negative in July and net migration rose over September from the previous month. The Quarterly Survey of Business Opinion for the September quarter showed a big jump in business confidence as well as a rise in activity.

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## Australian Equities

The Australian Equity market resumed a positive momentum reaching new 12 month highs before some profit taking saw the market finish lower (-2.1%), the first negative return in 8 months.

Interest rates and the currency were a major focus for investors during October. The Reserve Bank of Australia surprised the market with a 25 basis point interest rate increase early in the month. This saw the Australian dollar move much higher, particularly against the US dollar.

The Consumer Staples, Transport and Utilities sectors outperformed while Real Estate, Financials and Energy sectors lagged.

Oil, zinc and copper prices rose with US dollar devaluation and increased demand for these commodities. Oil rose above \$80 per month per barrel during the month and finished at \$77 per barrel, a 9% rise for the month.

## Offshore Equities

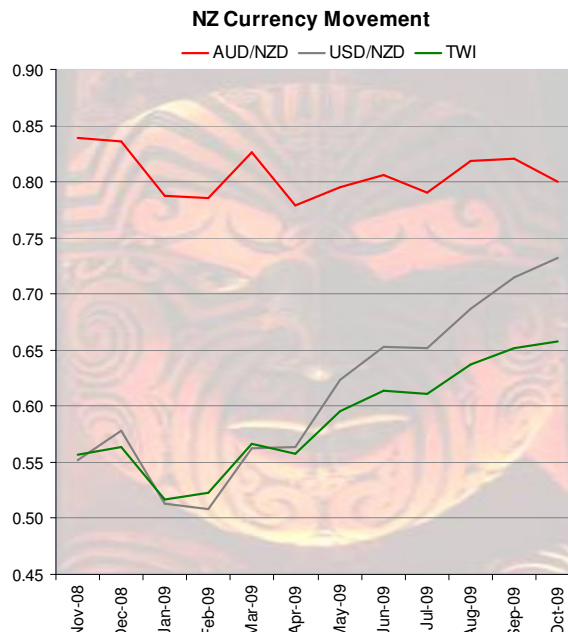
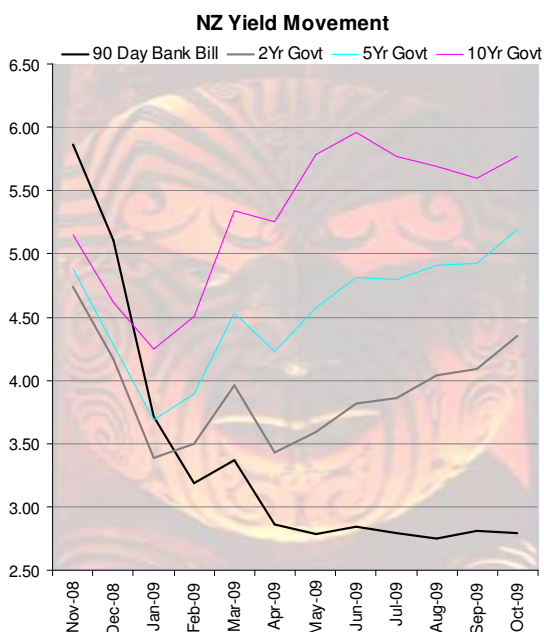
The US economy returned to growth as evidenced by the 3<sup>rd</sup> quarter GDP (Gross Domestic Product) at positive 3.5%, slightly higher than market estimates. While this was a positive result, market sentiment to risk and the uncertainty of the recovery in general has resulted in a fairly large amount of volatility in equity and currency markets as well as commodity prices.

Investors fear that the economy may re-enter recession as government and central bank stimulus gets reversed. Consumer sentiment and the housing market are still fragile. The weak US dollar is increasing the price of oil, which will further threaten the economic recovery as the price of energy rises.

On the other hand the Chinese economy is growing strongly. Growth for the year to September was positive 8.9%. Industrial production is increasing as well as domestic consumption. The Chinese authorities are encouraging domestic growth by reducing sales tax on motor vehicles and consumer durable products.

Market Data Summary

Equities (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX50	3,216	1.7%	6.6%	17.3%	14.0%	-5.3%	2.7%	6.2%
ASX200 (Local)	32,186	-2.1%	10.9%	25.4%	21.4%	-0.5%	8.8%	9.5%
ASX200 (NZD)		0.5%	9.6%	22.2%	32.1%	2.1%	11.8%	9.3%
MSCI World (Local)	1,863	-2.2%	4.5%	18.5%	11.6%	-7.8%	1.5%	-0.8%
MSCI World (NZD)		-4.2%	-5.4%	-3.6%	-4.8%	-9.0%	1.2%	-3.3%
NZX50 / ASX200(NZD) comp		1.1%	8.1%	19.7%	23.0%	-1.6%	7.3%	7.8%
Bonds (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX 90 Day Bank Bill	560.73	0.2%	0.7%	1.4%	4.1%	7.1%	7.2%	6.6%
NZX Govt Bond Index	1,074.39	-0.2%	0.8%	0.4%	7.6%	6.8%	6.5%	6.8%
NZX Composite A Grade	2,952	-0.02%	1.1%	1.3%	8.4%	7.1%	6.7%	6.9%
Property (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX Property	2,100	1.7%	10.0%	24.9%	11.8%	-1.5%	6.5%	9.2%
ASX200 Property (Local)	18,610	-9.0%	15.9%	28.8%	-7.3%	-21.1%	-6.6%	3.7%
ASX200 Property (NZD)		-6.7%	14.6%	25.5%	0.9%	-19.0%	-4.0%	3.6%
Currencies (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
AUD / NZD	0.7998	-2.5%	1.1%	2.7%	-8.1%	-2.6%	-2.7%	0.1%
USD / NZD	0.7327	2.5%	12.4%	30.0%	24.4%	3.3%	1.4%	3.7%
NZ TWI	65.8	0.9%	7.7%	17.9%	11.1%	-0.4%	-0.5%	1.9%
Interest Rates (basis points)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
90 Day NZ Bank Bill	2.79	-2	0	-7	-435	-481	-393	-245
10 Year NZ Govt Bond	5.77	17	0	52	-25	1	-29	-133
10 Year US Govt Bond	3.41	10	-11	25	-60	-120	-64	-261
Commodities (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
Oil Prices (US\$/WTI)	77.00	9%	11%	51%	14%	9%	8%	13%
CRB Index	270.4	4%	5%	22%	1%	-4%	-1%	3%



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

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