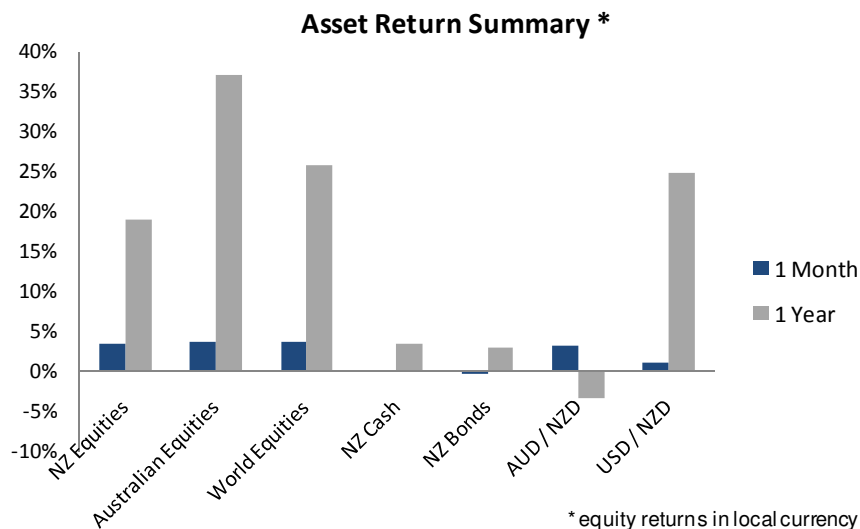


Hāhāea nga ripa o te pō, kia whiti ake ko te māramatanga  
 (Shred away the darkness, let there be light)

## TMF Limited: Tirohanga ki te makete mō Tihema 2009

### Market Overview



December is typically a quiet month with low volumes but has the potential to be volatile in thin trading. Fortunately there were no unpleasant surprises. The recovery theme continued with the domestic economy posting positive growth over the final quarter of 2009 setting the stage for an improved outlook for 2010.

- Cash and short term money market rates remained relatively unchanged in December.
- Long term Interest rates continued to creep higher in anticipation of tighter monetary policy; fortunately demand for bonds helped minimise the negative influence of rising interest rates on bond portfolios. The Composite A Grade index (bond portfolio benchmark) posted a 0.30% fall for December.
- Confidence in the global recovery has helped sustain the Equities rally in December and over the December quarter.
- NZ Equities rose 3.3% in December, more than offsetting the 2.8% decline in November and contributing to a positive 2.2% performance for the December quarter.
- Australasian Equities performed well (+2.0% for December, + 3.7% for the December quarter in NZD) as Australia continues to benefit from a strong global demand in minerals and energy.

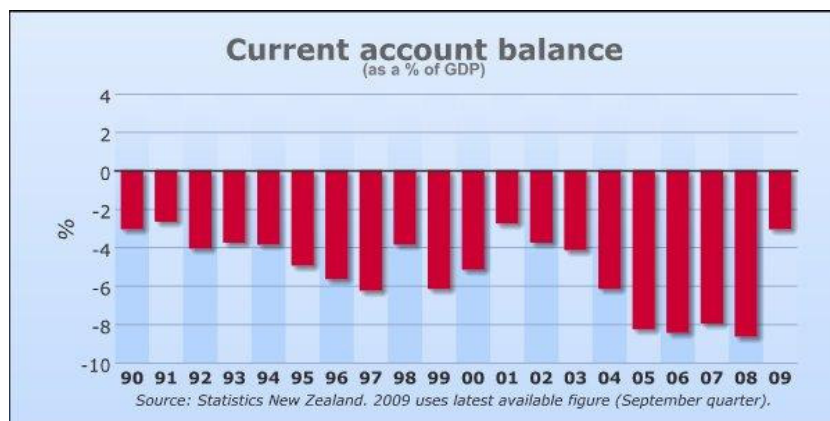
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- The World Equities rally continues, the MSCI increasing 3.7% for the month and 4.5% for the quarter. In NZD +0.8%, and 3.8% respectively.
- The continual climb of the NZDUSD reversed for a couple of weeks in December as the USD finally found some strength, (the NZDUSD dipping from 0.73 to 0.70). However a strong surge in the last week due to NZ growth releases, and commodity prices led to a stronger NZDUSD, climbing back to 0.73.

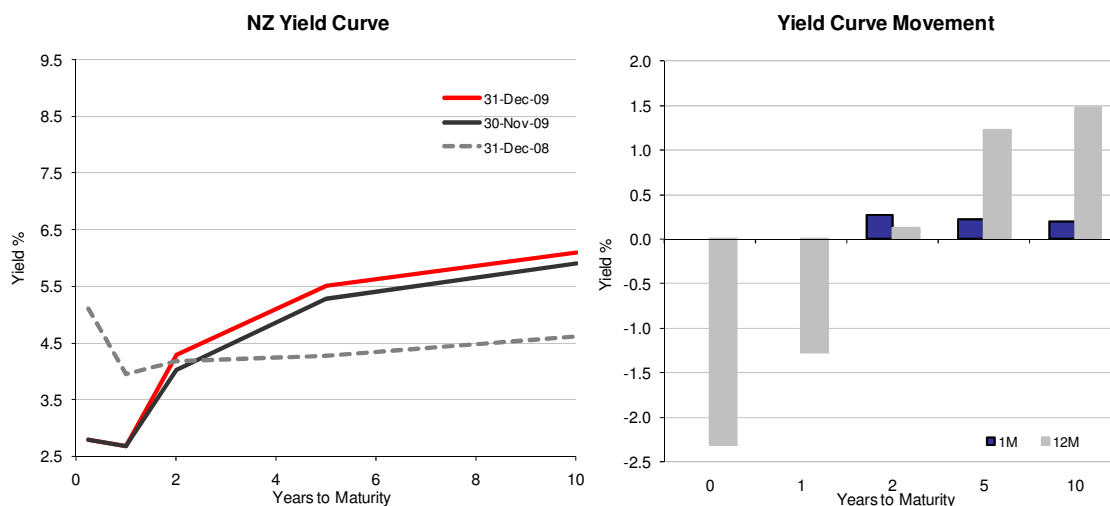
### NZ Cash & Fixed Interest

The light is definitely shining brightly at the end of the tunnel. In December we saw NZ record its second consecutive quarter of growth, the only other countries in the world that could make a similar boast were Australia, and Japan.

We also saw our current account balance shrink to 3.1% of GDP. The current account measures what a country saves minus what it spends or invests, for the past 4-5 years we as a country have been borrowing an alarming amount to finance our spending. The reasons for the sharp improvement were varied and we are still amongst the poorest savers in the world – but it sets a more **stable foundation for our recovery going forward**.



The RBNZ's strong expectations around growth and the labour market led to a strongly worded December OCR. The likely timing of the RBNZ's tightening of monetary policy moved forward from latter 2010 to mid 2010, (with the market pricing in a move in April). The wording in their statement led to strong **upward pressure on interest rates for the month**, as the prospects of a June cash rate rise looks probable (and likely to be initially a 50 basis point movement from 2.50% to 3.00%) As mentioned last month a **strong demand for bonds has helped minimise the negative influence of rising interest rates on bond portfolios**.



Interest Rates (basis points)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
90 Day NZ Bank Bill	2.80	0	-1	-4	-231	-494	-395	-283
10 Year NZ Govt Bond	6.10	20	50	14	148	17	12	-119
10 Year US Govt Bond	3.85	64	54	32	160	-86	-39	-260

Bonds (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX 90 Day Bank Bill	563.35	0.2%	0.7%	1.4%	3.4%	6.9%	7.1%	6.5%
NZX Govt Bond Index	1,082.32	-0.5%	0.6%	2.3%	1.7%	6.9%	6.4%	6.8%
NZX Composite A Grade	2,980	-0.30%	0.9%	3.0%	2.9%	7.3%	6.7%	7.0%

## NZ Equities

NZX50 posted a positive return of 3.3% in December, and 2.2% for the December quarter. Auckland International Airport (AIA) returned 8.6% for December; it represents 12% of the index, and was a large contributor to the index for the month. AIA upgraded their profit forecasts for 2010 due mainly to increased passenger numbers. Nuplex had a good December, with a positive return of 17.3%. The manufacturer also upgraded their profit expectations for the financial year.

## Australian Equities

ASX200 continued to push higher with a 3.7% increase in December. QBE (+11.8%) and Worley Parsons (+6.5%) were good performers. Worley is a professional consultant, providing service to the energy, infrastructure and resource industries.

With the NZD recovering strongly in the last week of December, particularly against the AUD the increase in the ASX200 in NZD was 0.6%. The benchmark we use for our Australasian equities is the combined NZX50/ASX200(NZD) composite index. The result was an impressive 2% positive return for December, and 3.7% for the last quarter.

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## World Equities

The world equity market rally that began in March continued in December. We use the MSCI World index as the benchmark for our international equities – increasing 3.7% in December. Once again due to the strong surge in the NZD in the last week of December the MSCI World (NZD) posted a 0.8% positive return for December, and 3.1% for the last quarter.

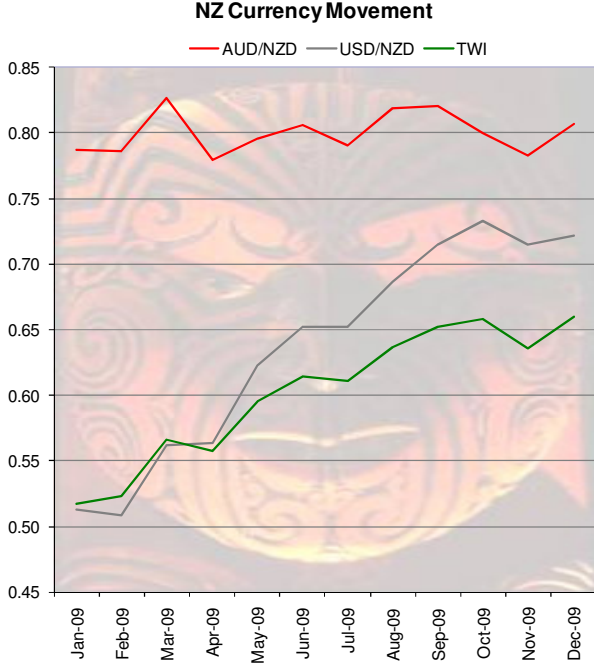
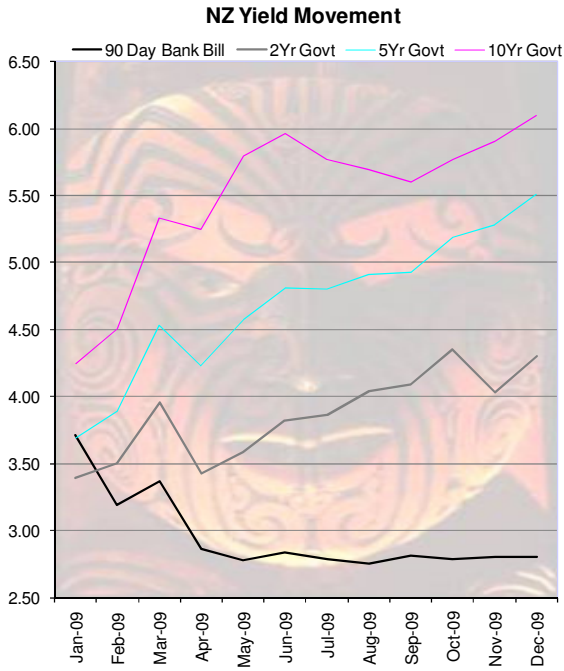
Many company earnings have outstripped expectations, and companies have been forced into positive restructuring of their balance sheets that has led to a steadily improved risk appetite throughout 2009 – and should continue into 2010.

The US economy showed several signs of recovery throughout December, including labour market, retail sales, consumer confidence, and housing sales.

In mid December, Abu Dhabi announced it would be providing US\$10 billion ‘bail out’ for Dubai World. The news was received positively by world markets, resulting in increases in world equity prices.

Equities (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX50	3,230	3.3%	2.2%	15.5%	18.9%	-7.3%	1.1%	5.5%
ASX200 (Local)	33,986	3.7%	3.4%	25.6%	37.0%	-0.7%	8.4%	8.9%
ASX200 (NZD)		0.6%	5.1%	25.4%	41.9%	2.7%	11.3%	8.8%
MSCI World (Local)	1,992	3.7%	4.5%	20.0%	25.7%	-6.9%	1.5%	-1.3%
MSCI World (NZD)		0.8%	3.1%	10.5%	4.2%	-6.3%	1.9%	-3.4%
NZX50 / ASX200(NZD) comp		2.0%	3.7%	20.5%	30.4%	-2.3%	6.2%	7.1%

Property (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX Property	2,094	4.1%	1.4%	18.8%	11.8%	-5.3%	4.9%	8.7%
ASX200 Property (Local)	19,433	3.4%	-5.0%	23.9%	7.9%	-23.1%	-7.3%	4.0%
ASX200 Property (NZD)		0.2%	-3.4%	23.7%	11.7%	-20.5%	-4.8%	4.0%
Currencies (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
AUD / NZD	0.8071	3.1%	-1.7%	0.2%	-3.4%	-3.3%	-2.6%	0.1%
USD / NZD	0.7217	1.0%	1.0%	10.6%	24.8%	0.7%	0.1%	3.3%
NZ TWI	66.0	3.8%	1.2%	7.5%	17.2%	-1.8%	-0.8%	1.7%
Commodities (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
Oil Prices (US\$/WTI)	79.36	3%	12%	14%	78%	9%	13%	12%
CRB Index	283.4	2%	9%	13%	23%	-3%	0%	3%



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

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