

# Market Overview

March 2012 // Quarterly Market Overview

## Australasian Equities

The New Zealand sharemarket advanced 7.3% over the quarter, as measured by the Russell JB Were Tradeable Gross Index. The defensive nature of the NZ sharemarket meant that NZ did not rise to the same degree as many other countries. Telecom returned 23.2%, largely due to a strong demand-driven rally in March, despite there being no material announcements. Contact Energy was the largest detractor from market performance during the quarter, falling 7.4% following the announcement that a record number of customers had switched to alternative providers.

Australian shares advanced 9.1%, as measured by the Russell Australia index, driven mostly by global factors. However, gains were tempered by the Reserve Bank of Australia's decision not to ease the official cash rate from its level of 4.25%.

## Global Equities

Global equities rose 11.6% in NZ dollar hedged terms over the first quarter of 2012, as measured by the Russell Developed Large Cap Index. Global equity markets continued the turnaround that began in the previous quarter and registered strong gains in January and February, in particular. The technology and consumer discretionary sectors led the rally, while the financial sector continued its rebound on improved credit conditions and favourable banking stress test results in the US.

In contrast, traditional defensive sectors such as consumer staples, utilities, and energy lagged for the quarter.

US stocks, as measured by the Russell 1000 Index, returned 12.9% during the quarter. Better-than-expected housing data and a small decline in reported unemployment generated positive investor sentiment. This was further enhanced by the improved credit conditions in Europe following the introduction of round two of the European Central Bank's (ECB's) Long-Term Refinancing Operations (LTRO), a process by which European banks can take out three-year loans at 1% from the ECB in exchange for a wide range of collateral.

European markets also delivered positive returns for the quarter, with the Russell Eurozone index gaining 9.2%.

The latest agreement in the Greek crisis and the second round of the ECB's LTRO provided support to the European market. The best-performing market over the quarter was Germany, with data showing its economy was significantly

outperforming its eurozone neighbours.

By contrast, the Spanish market performed poorly as investors were sceptical over the new government's ability to appease both its electorate and creditors.

The Japanese equity market surged during the quarter, with the Russell Japan index rising 18.4%. While the gain was driven mostly by the positive sentiment emanating from Europe and the US, local factors also contributed. Speculation that Chinese officials will continue to loosen monetary policy and the Bank of Japan's decision to expand its asset purchase programme

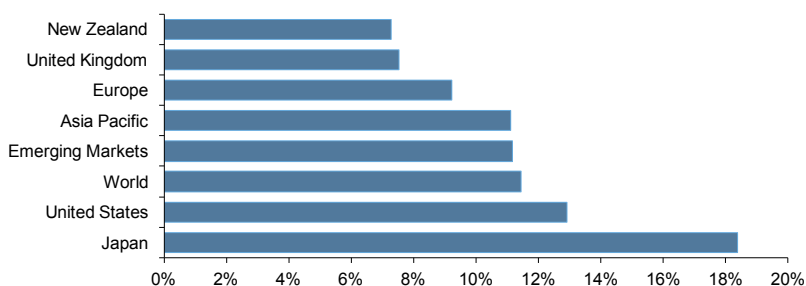
## Currency Comment

The NZ dollar gained against all the major currencies during the quarter as optimism regarding the global recovery increased.

**Table 1. NZ\$ Movement Q1 2012**

Currency	NZD % appreciation
USD	5.0
GBP	2.2
AUD	4.0
JPY	12.4
EUR	2.4
TWI	5.4

**Fig 1. Russell World Equity Indices Local Currency Q1 2012**



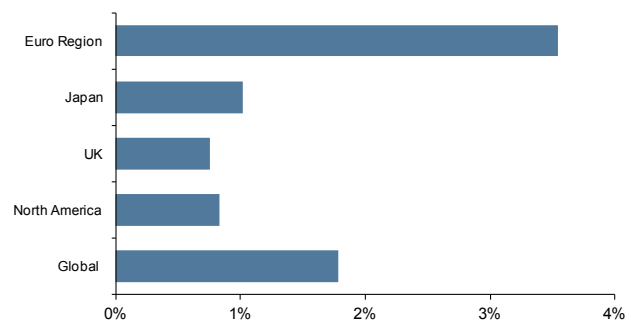
supported the sharemarket. Importantly, the latter had the effect of weakening the yen against its US counterpart and thus provided a welcome boost to the country's struggling exporters.

Emerging Markets rose by 11.2%, as measured by the Russell Emerging Markets index, outperforming most developed markets. Eastern Europe was the standout performer by region, while the best performing market was Egypt (+35.7%), which benefited from easing political tensions and a rally from its oversold level after the chaotic events of 2011. Russia (+18.4%), a beneficiary of rising oil prices, was also a significant contributor to emerging market outperformance during the quarter. China returned 11.3% while India (+21.0%) was very strong in January when inflation dipped to its lowest level since 2009. This gave the Reserve Bank of India room to cut banks' required reserve ratio to inject liquidity into the financial system.

### Global Fixed Interest

The Barclays Capital Global Aggregate Bond Index returned 1.8% over the quarter in NZ dollar hedged terms. The first quarter of 2012 saw a tightening of credit spreads with investors moving back into higher yielding securities, including investment-grade and high-yield corporate bonds. The primary catalysts were developments surrounding the European debt crisis, which provided clarity on policy and significantly reduced liquidity risk. Most notably, the ECB's LTRO programme injected €1 trillion worth of liquidity into eurozone banks. Near-term Greek pressure was also alleviated as private borrowers agreed on terms of a principal write-down and the German parliament approved a second bailout of €130 billion.

Fig 2. Barclays Capital Global Aggregate and Regions Q1 2012 (NZ\$ Hedged)



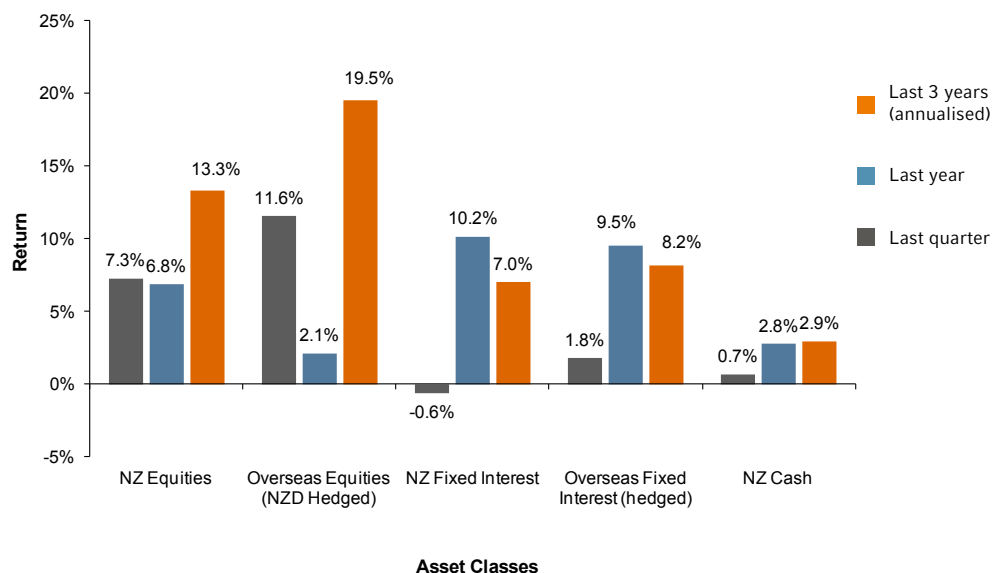
### NZ Fixed Interest

NZ Government securities declined 0.6% during the quarter, the first quarterly decline since late 2010. Indications of economic improvement emanating from the US and aggressive monetary easing policies from some central banks during the quarter, saw a shift away from "safe-haven" assets.

### Global Real Estate

Following a strong finish to 2011, the global listed property market continued to climb with the FTSE EPRA/NAREIT Developed Real Estate Index adding 12.8% during the quarter, in NZ dollar hedged terms. The Asia-Pacific region (16.5%) had the strongest performance. In Europe, performance was roughly in line with the global index average, while in the US property stocks returned 10.6%, trailing other markets and representing a reversal in the performance trend of late-2011.

Fig 3. Asset Class Returns Q1 2012 (\$NZ)



## Index returns

		Last Quarter	One Year	Three Year	Five Year	
<b>Equities</b>	<b>New Zealand</b>					
	Russell/ JB Were Tradeable Gross	7.27%	6.85%	13.35%	-0.85%	
	<b>Global</b>					
	Russell Global Large Cap NZD Hedged (≈ MSCI All Country)	11.36%	1.06%	19.40%	0.32%	
	Russell Developed Large Cap NZD Hedged (≈ MSCI World)	11.57%	2.12%	19.55%	0.03%	
	Russell Developed Large Cap Value	11.13%	-1.07%	17.14%	-3.39%	
	Russell Developed Large Cap Growth	11.80%	5.27%	20.61%	1.76%	
	<b>United States</b>					
	Russell 1000	12.90%	7.86%	24.03%	2.19%	
	Russell 2000	12.44%	-0.19%	26.90%	2.13%	
	Russell 3000	12.87%	7.18%	24.25%	2.18%	
	<b>Australia</b>					
	Russell Australia	9.14%	-5.37%	13.39%	-0.42%	
	<b>China</b>					
	Russell China	11.32%	-17.68%	14.01%	1.13%	
	<b>Eurozone</b>					
	Russell Eurozone	9.22%	-8.29%	15.17%	-5.58%	
	<b>Japan</b>					
	Russell Japan	18.37%	0.56%	5.86%	-11.22%	
	<b>Pacific ex Japan</b>					
	Russell Asia Pacific ex Japan	11.11%	-5.75%	18.56%	3.82%	
	<b>United Kingdom</b>					
	Russell United Kingdom	7.53%	2.36%	18.57%	1.68%	
	<b>Emerging Markets</b>					
	Russell Emerging Markets	11.17%	-4.67%	21.12%	4.73%	
	Russell BRIC	11.72%	-10.77%	18.62%	3.26%	
	Russell Frontier	5.32%	-10.78%	13.79%	n/a	
	<b>Yield</b>					
<b>Fixed Interest</b>	ANZ 90-day Bank Bill Index	2.76	0.68%	2.76%	2.93%	5.02%
	ANZ Government Stock Index	3.76	-0.64%	10.16%	7.04%	7.85%
	Barclays Capital Global Aggregate Index NZD Hdgd		1.78%	9.53%	8.20%	8.65%
	Citigroup World Government Bond Index NZD Hdgd		1.17%	9.62%	6.31%	8.29%
<b>Property</b>	<b>Global</b>					
	FTSE EPRA/NAREIT (NZD Hedged)	12.76%	2.84%	27.64%	-5.64%	
	<b>United States</b>					
	FTSE NAREIT Equity REITs (USD)	10.49%	11.30%	42.21%	-0.12%	
	<b>Australia</b>					
	S&P/ASX 200 LPT (AUD)	7.01%	1.57%	14.43%	-13.30%	
<b>Commodities</b>	Dow Jones - UBS Commodity Index (USD)	0.89%	-16.27%	9.05%	-2.77%	
	S&P GSCI Total Return Index (USD)	5.88%	-6.21%	13.15%	-2.66%	
		<b>31-Mar-12</b>	<b>31-Dec-11</b>	<b>31-Mar-11</b>	<b>31-Mar-09</b>	<b>31-Mar-07</b>
	Gold spot price (USD)	1663.8	1574.6	1437.1	916.1	663.9
	Oil spot price (USD)	103.0	98.8	106.2	49.7	65.9
<b>Currencies</b>	NZD/USD	0.8194	0.7801	0.7627	0.5708	0.7150
	NZD/AUD	0.7910	0.7609	0.7376	0.8215	0.8851
	NZD/GBP	0.5129	0.5020	0.4758	0.3982	0.3645
	NZD/EUR	0.6153	0.6009	0.5375	0.4299	0.5371
	NZD/JPY	67.44	60.02	63.22	56.37	84.42
	Trade Weighted Index	72.80	69.10	66.90	56.60	69.70
<b>Volatility</b>	<b>CBOE Volatility Index (VIX)</b>	15.50	23.40	17.74	44.14	14.64

All returns stated in local currency terms unless otherwise stated.

Russell Indices are constructed to provide a comprehensive and unbiased barometer for the relevant segment and are completely reconstituted annually to accurately reflect the changes in the market over time.



## Index Definitions

### Equities

#### **New Zealand**

*Russell JB Were:* A market-weighted index with target capitalisation of the pool of tradeable securities listed on the New Zealand Stock Exchange. The index is calculated with gross dividends reinvested including adjustments for imputation credits.

#### **Global Equities**

*Russell Global Large Cap:* The index measures the performance of the largest securities in the Russell Global Index, based on market capitalisation. The index includes approximately 3000 securities and covers 87% of the investable global market.

*Russell Developed Large Cap:* Offers investors access to the large-cap segment of the developed equity universe representing approximately 70% of the global equity market. The index includes the largest securities in the Russell Developed Index.

*Russell Developed Large Cap Value:* Measures the large-cap value segment of securities located in developed countries globally. It includes companies with lower price-to-book ratios and lower forecasted growth values. The index includes the largest securities in the Russell Developed Value Index.

*Russell Developed Large Cap Growth:* Measures the large-cap growth segment of securities located in developed countries globally. It includes those companies with higher price-to-book ratios and higher forecasted growth values. The index includes the largest securities located in the Russell Developed Growth Index.

#### **United States**

*Russell 1000:* Measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 90% of the US market.

*Russell 2000:* Measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 8% of the total market capitalisation of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

*Russell 3000:* Measures the performance of the largest 3000 US companies representing approx 98% of the investable US equity market.

#### **Australia**

*Russell Australia:* Measures the performance of the equity market in the Australia based on all its investable equity securities.

#### **United Kingdom**

*Russell United Kingdom:* Measures the performance of the equity market in the UK based on all its investable equity securities.

#### **Japan**

*Russell Japan:* Measures the performance of the equity market in Japan based on all its investable equity securities.

#### **China**

*Russell China:* Measures the performance of the equity market in China based on all its investable equity securities.

#### **Eurozone**

*Russell Eurozone:* Measures the performance of the equity markets located in the Eurozone, based on all investable equity securities in the region. The index covers 15% of the investable global market.

#### **Pacific ex-Japan**

*Russell Asia Pacific ex-Japan:* Measures the performance of the equity market in the countries in Asia Pacific, excluding Japan and including Australia and New Zealand based on all its investable equity securities.

#### **Emerging Markets**

*Russell Emerging Markets:* Measures the performance of the largest investable securities in emerging countries globally, based on market capitalisation. The index covers 20% of the investable global market.

*Russell BRIC:* Measures the performance of the largest investable securities in Brazil, Russia, India and China, based on market capitalisation. The index covers 10% of the investable global market.

#### **Frontier Markets**

**Fixed Interest** *Russell Frontier:* Constructed using float-adjusted market capitalisation weights and represents 98% of the cumulative, liquid market capitalisation of frontier countries.

*ANZ 90 Day Bank Bill Index:* A measure of the cumulative increase in the market value of a portfolio of bank bills based on a daily roll over and purchase of a new bank bill of 90 day maturity. The 90 Day Bank Bill index is valued on a mark to market basis, i.e. valued at current market yields not at purchase yields.

*ANZ Government Stock Index:* Tracks movement in the NZ Government bond market. Bonds are included in the index in proportion to their relative market capitalisation weights. The index calculation assumes the full amount of all coupon payments are reinvested in the index.

*Barclays Capital Global Aggregate Index NZD Hedged:* An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (specifically, Barclays Capital Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index.)

**Property** *Citigroup World Government Bond Index NZD Hedged:* A market capitalisation weighted bond index consisting of the government bond markets of developed countries.

#### **Global**

*FTSE EPRA/NAREIT:* A Global Real Estate Index designed to represent general trends in eligible real estate equities worldwide. Relevant real estate activities are defined as the ownership, disposal and development of income-producing real estate. The index series covers Global, Developed and Emerging indices, as well the UK's AIM market.

#### **United States**

*FTSE NAREIT Equity REIT Index:* An index, with dividends reinvested, representative of tax-qualified REITs listed on the New York Stock Exchange, American Stock Exchange, and the NASDAQ National Market System.

#### **Australia**

*S&P/ASX 200 LPT Index:* An index of Australia's listed property trust (LPT) sector.

**Commodities** *Dow Jones UBS Commodity Index:* A futures commodity index listing 19 different commodities in the US. It is a diversified and liquid index tracking the performance of physical commodities in the US. It weights the commodities listed according to liquidity and dollar-adjusted production data. However, unlike other commodity indices, the DJ-UBS sets limits on its weighting so as to maintain its own diversification.

*S&P GSCI Total Return Index:* Measures a fully collateralised commodity futures investment that is rolled forward from the 5th to the 9th business day of each month. Currently the S&P GSCI includes 242 commodity nearby futures contracts. The S&P GSCI Total Return Index is significantly different than the return from buying physical commodities.

*Gold spot price (USD):* London PM fixed spot price.

*Oil price (USD):* Price of barrel of light, sweet crude oil as traded on the New York Mercantile Exchange (NYMEX).

*CBOE Volatility Index (VIX):* An index that measures market expectations of near-term volatility conveyed by S&P 500 stock index option prices.