

# Market Overview

December 2009 // Quarterly Market Overview

## New Zealand Equities

New Zealand equities, as measured by the Russell/JB Were Tradeable Index, rose 2.8% over the quarter. Restaurant Brands was the standout performer this quarter, climbing 42.5% as strong sales growth in its KFC and Pizza Hut operations supported the company's forecast for annual profit to jump 50%. Auckland International Airport rose 12% during the quarter on the back of an increase in domestic and international passenger numbers while Contact Energy climbed 6.8% regaining some of the ground lost during a turbulent year for the company. The two market heavyweights, Fletcher Building and Telecom, declined 4.3% and 3.7%, respectively, over the quarter, although a late December rally in both stocks ensured the falls were not as large as they might have otherwise been.

## Global Equities

Global equities continued to strengthen over the fourth quarter as investor appetite for risk assets showed no sign of waning. The Russell Developed Large-cap index advanced 4.7% in local currency terms despite an increase in risk aversion following news of a potential debt crisis in Dubai. Commodity rich markets like Australia and Canada were major positive contributors. The materials sector outperformed, driven largely by a further bounce in commodity prices, while consumer-related sectors also enjoyed a strong run as consumer confidence and activity increased with the economic recovery. However, financials weakened as investors questioned the sector's future growth expectations and the potentially negative consequences of stricter regulation.

US equities, as measured by the Russell 1000 index, advanced 6.1% during the quarter, driven by fresh signs of stability in the US economy. Companies with more defensive traits drove gains over the quarter in a market in which retail sales, auto manufacturing and sales growth all improved. The broad market advanced as a record percentage of US companies reported profits that beat expectations as the financial climate recovered. In particular, healthcare and consumer discretionary companies performed well as investor sentiment improved, driven by positive retail sales data and developments on healthcare reform in Congress.

Despite faltering in October, the Russell UK index recovered to post a 5.4% return for the quarter, the recovery being led by larger-cap stocks. Fresh takeover speculation further bolstered investor confidence as companies with robust balance sheets looked to expand. Across in Europe, the Russell Eurozone index rose 2.5% during the quarter. While economic data was largely positive, fears remained of a somewhat asymmetric European recovery

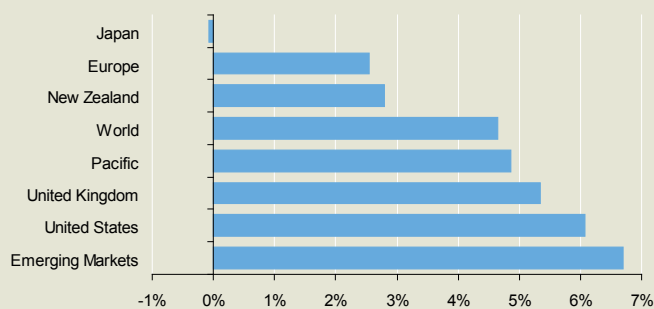
## Currency Comment

The value of the NZ dollar, which had strengthened considerably over the previous two quarters, was little changed this quarter except against the yen and euro which continued to weaken relative to the 'kiwi'.

**Table 1. NZ\$ Movement Q4 2009**

Currency	NZD % appreciation
USD	0.6
GBP	-0.4
AUD	-1.3
JPY	4.6
EUR	2.5
TWI	1.2

**Fig 1. Russell World Equity Indices Local Currency Q4 2009**



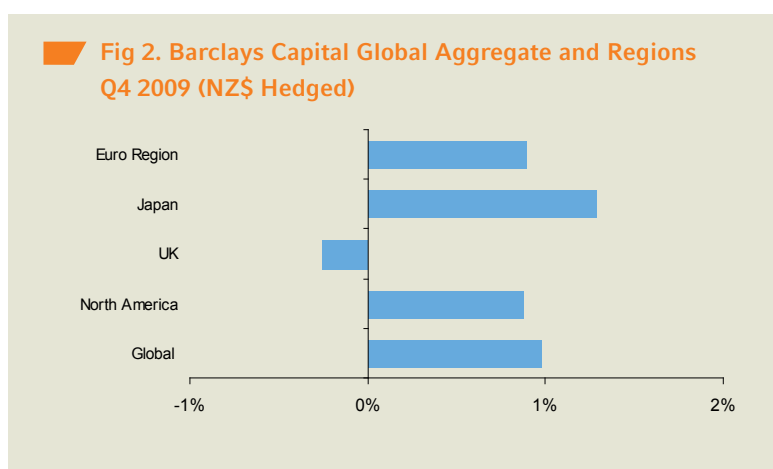
as Greece saw its sovereign debt rating downgraded due to the country's swelling budget deficit. Financial stocks struggled as the European Central Bank raised its estimates of bank writedowns and bad debt fears reignited as news broke that Dubai World was seeking to delay debt payments.

Despite industrial output rising for the ninth consecutive month, the Russell Japan index returned -0.1% during the fourth quarter. Global growth concerns and mixed economic data provided little confidence that the Japanese economy was improving. In contrast, the Russell Asia Pacific ex-Japan index advanced 4.9% during the quarter. Confidence in the region increased as data showed that Asia's fastest growing economies – China, India and Indonesia – were weathering the economic downturn better than their western counterparts.

Emerging markets again strengthened over the fourth quarter with the Russell Emerging Market index rising 6.7% and completing its best ever year with a 65.5% return. The improving economic situation in Latin America helped drive the index's overall quarterly gains. Resource rich markets like Chile and Brazil were major positive contributors while Russian equities also advanced, as crude oil - the country's major export - neared US\$80 a barrel.

### Global Fixed Interest

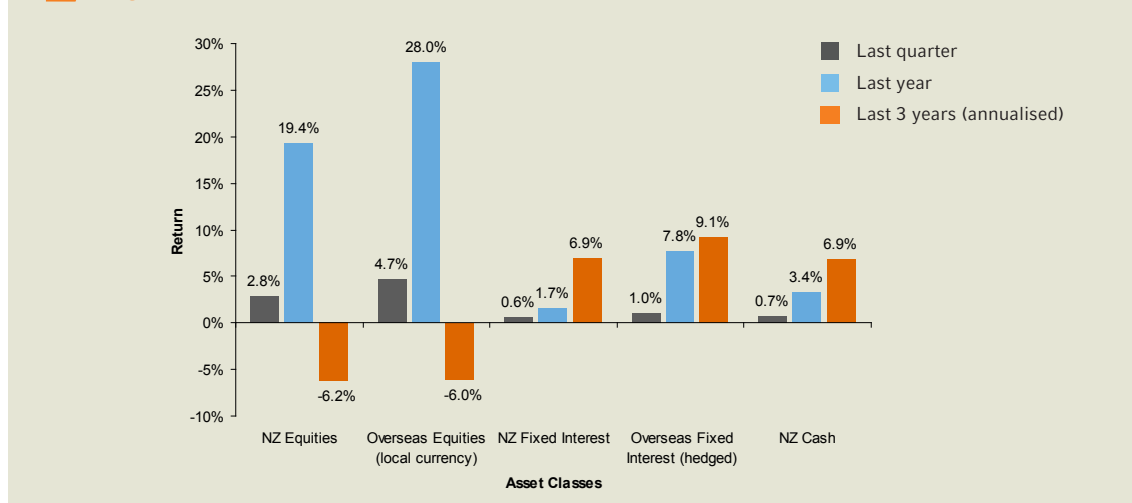
The Barclays Capital Global Aggregate Index advanced 1.0% in NZ dollar hedged terms over the quarter. Credit continued to outperform as the global economy continued to stabilise. High-yield debt outperformed considerably over the year's final quarter as risk appetite showed no sign of waning and credit spreads continued to narrow. The strength of high-yield and emerging market debt was a key feature of 2009, helped by attractive valuations, improving fundamentals and strong technicals. While spreads on the latter widened on news of a potential debt crisis in Dubai, emerging market debt premiums, which had soared in 2008, experienced their biggest annual decline since 1998.



Government bond markets, as measured by the Citigroup World Government Bond Index, returned 0.5% in NZ dollar hedged terms over the quarter amid concerns over record levels of supply and sustained risk appetite, particularly in December. In the UK, ten-year gilt yields rose to their highest level in just over a year, as expectations that economic recovery would accelerate and that the Bank of England would conclude its gilt buying programme early in the New Year. In the US, there was some support for short-term Treasury bills, particularly in November, when investors took profits from riskier investments and invested in shorter term, less risky and more liquid assets to maintain balance sheet quality prior to year end.

### New Zealand Fixed Interest

The ANZ New Zealand Government Stock Index returned 0.6% for the quarter. Yields rose for government bonds of all maturities with the yield curve steepening as the rates for longer-dated bonds, which rose by around 20 basis points, exceeded the approximately 10 basis points rise for those of shorter-dated securities. The Reserve Bank left the Official Cash Rate (OCR) at 2.5% this quarter commenting that they "continue to see little need to increase the OCR immediately, given tighter financial conditions brought about by appreciation in the New Zealand dollar, growing market expectations of an increase in the OCR and increasingly aggressive competition for deposits among financial institutions". The Reserve Bank also noted that they expect annual CPI inflation to remain inside the target range over the medium term.

 Fig 3. Asset Class Returns Q4 2009 (\$NZ)


## Alternatives

### Commodities

The US dollar's continued weakness helped increase the appeal of hard assets including gold and copper. Gold passed through the US\$1,000 an ounce ceiling to hit US\$1,208 an ounce in early December, before finishing the quarter on US\$1,104. Copper, which gained nearly 140% in 2009, reached a 15-month high in December amid speculation that demand will strengthen and drain stockpiles. This was notably to the benefit of Australian mining stocks and the Chilean economy. Meanwhile, crude oil finished the quarter close to US\$80 a barrel, posting a 37% return for the 2009 calendar year.

### Property

Global property advanced 4.9% in NZ dollar hedged terms in the fourth quarter. This was led by North America's solid 9.4% return with investors looking forward to capital growth now that concern over the viability of REITs has diminished. The UK market rose this quarter on news that commercial property values climbed over 2% in November, the largest monthly gain in fifteen years. However, the tenant market in the UK remains weak and rents continue to fall even though there has been positive momentum in capital growth for prime assets. In Europe, most property companies advanced over the quarter. Several measures were taken to improve companies' financing structures and liquidity, including asset sales, equity offerings and bond issuance. While markets generally responded favourably, this positive sentiment did not extend to Germany where the market declined. Property securities in Asia rose this quarter, bouncing back after lagging during the previous quarter. The Japanese market, however, continued to deliver weak results, declining 4.9% in local currency terms. The Australian market suffered from a round of profit-taking despite positive news flow at the company-level, closing the quarter down 5.0%.

## Index returns

			Last Quarter	One Year	Three Year	Five Year
<b>Equities</b>	<b>New Zealand</b>					
	Russell/ JB Were Tradeable Gross		2.79%	19.37%	-6.15%	2.27%
	<b>Global</b>					
	Russell Developed Large Cap (~MSCI World)		4.65%	28.02%	-6.04%	2.28%
	Russell Developed Large Cap Value		3.07%	23.67%	-8.51%	1.46%
	Russell Developed Large Cap Growth		6.40%	32.73%	-3.60%	2.99%
	<b>United States</b>					
	Russell 1000		6.07%	28.43%	-5.36%	0.79%
	Russell 2000		3.87%	27.17%	-6.07%	0.51%
	Russell 3000		5.90%	28.34%	-5.42%	0.76%
	<b>Australia</b>					
	Russell Australia		3.13%	41.48%	1.02%	9.69%
	<b>China</b>					
	Russell China		10.73%	70.91%	4.79%	17.69%
	<b>Eurozone</b>					
	Russell Eurozone		2.54%	31.59%	-8.20%	4.08%
	<b>Japan</b>					
	Russell Japan		-0.07%	8.39%	-17.22%	-3.06%
	<b>Pacific ex-Japan</b>					
	Russell Asia Pacific ex-Japan		4.87%	60.51%	4.61%	12.23%
	<b>United Kingdom</b>					
	Russell United Kingdom		5.35%	29.58%	-1.40%	6.26%
	<b>Emerging Markets</b>					
	Russell Emerging Markets		6.69%	65.47%	3.93%	14.15%
	Russell BRIC		9.55%	79.88%	5.02%	18.58%
	Russell Frontier		-0.70%	30.98%	-9.24%	2.54%
		<b>Yield</b>				
<b>Fixed Interest</b>	ANZ 90 Day Bank Bill Index	2.80	0.71%	3.39%	6.86%	7.09%
	ANZ Government Stock Index	5.52	0.64%	1.65%	6.95%	6.39%
	Barclays Capital Global Agg Index NZD Hedged		0.98%	7.76%	9.15%	8.29%
	Citigroup World Govt Bond Index NZD Hedged		0.47%	3.49%	9.09%	8.35%
<b>Property</b>	<b>Global</b>					
	FTSE EPRA/NAREIT (USD)		4.40%	38.26%	-12.39%	2.00%
	<b>United States</b>					
	FTSE NAREIT Equity REITs (USD)		9.39%	27.99%	-12.41%	0.36%
	<b>Australia</b>					
	S&P/ASX 200 LPT (AUD)		-5.01%	7.92%	-23.10%	-7.27%
<b>Commodities</b>	Dow Jones - AIG Commodity Index (USD)		9.03%	18.91%	-3.83%	1.96%
	S&P GSCI Total Return Index (USD)		8.42%	13.48%	-6.94%	-2.99%
		<b>31-Dec-09</b>	<b>30-Sep-09</b>	<b>31-Dec-08</b>	<b>31-Dec-06</b>	<b>31-Dec-04</b>
	Gold spot price (USD)	1104.0	995.8	869.8	632.0	435.6
	Oil spot price (USD)	79.4	70.6	57.9	67.0	42.8
<b>Currencies</b>	NZD/USD	0.7277	0.7234	0.5844	0.7051	0.7223
	NZD/AUD	0.8091	0.8197	0.8382	0.8946	0.9214
	NZD/GBP	0.4506	0.4523	0.4065	0.3603	0.3762
	NZD/EUR	0.5072	0.4949	0.4204	0.5347	0.5314
	NZD/JPY	67.74	64.77	52.98	84.02	74.01
	Trade Weighted Index	66.00	65.21	56.27	69.60	68.79
<b>Volatility</b>	CBOE Volatility Index (VIX)	21.68	22.66	40.00	11.56	13.29

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 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

*Russell Frontier:* Measures the performance of the securities included in the bottom 1% of the Russell Emerging Markets index as ranked by float adjusted market cap. The index covers 1% of the investable global market.

### Fixed Interest

*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.)

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

### Property

#### 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 AIG 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-AIG 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.