

Market Overview

September 2011 // Quarterly Market Overview

New Zealand Equities

The New Zealand sharemarket advanced 0.6% over the quarter, as measured by the Russell JB Were Tradeable Gross Index. Slightly higher GDP forecasts, a net positive round of earnings upgrades and the defensive nature of the NZ sharemarket shielded NZ from the significant declines felt in most other countries. Telecom was the strongest performer this quarter, returning 13.1% amid increased certainty around its de-merger. The largest detractor from market performance during the quarter was Fletcher Building, falling 7.4% due to its more cyclical nature and exposure to the Australian market.

Global Equities

Global equity markets endured a highly volatile third quarter as the escalating Eurozone crisis continued to weigh on investor confidence. The Russell Global Large Cap Index declined 15.3% over the quarter in NZ dollar hedged terms, with European markets bearing the brunt of the decline. Greece fell 44.1% as markets judged the prospect of default as a growing possibility while larger European countries such as Germany (-30.9%) and France (-29.6%) were also hit. Defensive sectors such as consumer staples and healthcare outperformed, while financials lagged the most, led by European banks. Commodity-based sectors such as Materials and Energy were also big underperformers amid growing fears about global growth.

US equities, as measured by the Russell 1000 Index, declined 14.7% during a quarter in which Standard & Poor's downgraded the country's debt and renewed deterioration in economic activity undermined investor confidence. In common with other developed markets, the US banking sector came under pressure, as worries mounted that a double-dip recession would result in a second wave of mortgage delinquencies.

The Russell Eurozone Index fell by 21.5%. The debt crisis continued unabated and the problems facing Greece threatened to engulf several other European economies, including Italy and even the French banks. With the notable exception of 'safe haven' Switzerland, it was an extremely weak quarter for every major European market. France's AAA credit rating was called into question anew, as the market speculated that the cost of potential bailouts for Spain and

Currency Comment

Global economic concerns caused a flight to 'safe-haven' currencies, such as the US dollar and Japanese yen while lower expectations for global growth had a more pronounced effect on the Australian and New Zealand dollars.

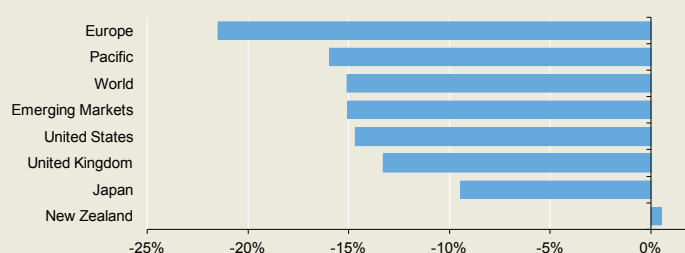
Table 1. NZ\$ Movement Q3 2011

Currency	NZD % appreciation
USD	-7.4
GBP	-4.6
AUD	2.0
JPY	-11.7
EUR	0.0
TWI	-3.9

Italy would add to the country's large budget deficit. More than half of large European companies that reported profits in July fell short of market expectations, making it the most disappointing European earnings season since 2005.

The Russell UK index declined 13.3% over the quarter influenced by events across the Channel and in the United States. Returns were also dragged down by weak economic data in the UK and the IMF's cutting of the UK's GDP forecast by a third to 1.1% for 2012.

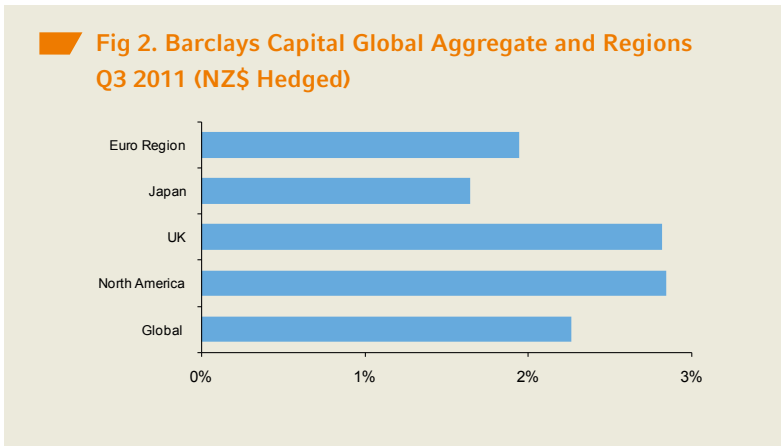
Fig 1. Russell World Equity Indices Local Currency Q3 2011



Japan provided relative safety over the quarter with the Russell Japan Index declining only 9.4%. A weaker yen and some better-than-expected earnings guidance following the recent earthquake, provided some support to the local market. Nevertheless, Japanese exporters were among the hardest hit, particularly those companies operating within sectors where demand from the US, Europe and China is greatest. Adding to the dour tone was Moody's decision to downgrade Japan's sovereign credit rating to Aa3.

Global Fixed Interest

The Barclays Capital Global Aggregate Bond Index gained 3.7% in NZ dollar hedged terms. Corporate bonds underperformed as concerns about European debt and global economic growth drove investors to the safety of government bonds. Spreads over government bonds moved higher and new issues dried up. The impact of this on high yield bonds was worse than on investment grade issues in this environment. For similar reasons, global credit markets lagged government bonds as investors sold off credit for the relative safety of Treasuries, gilts, bunds and Japanese government bonds.

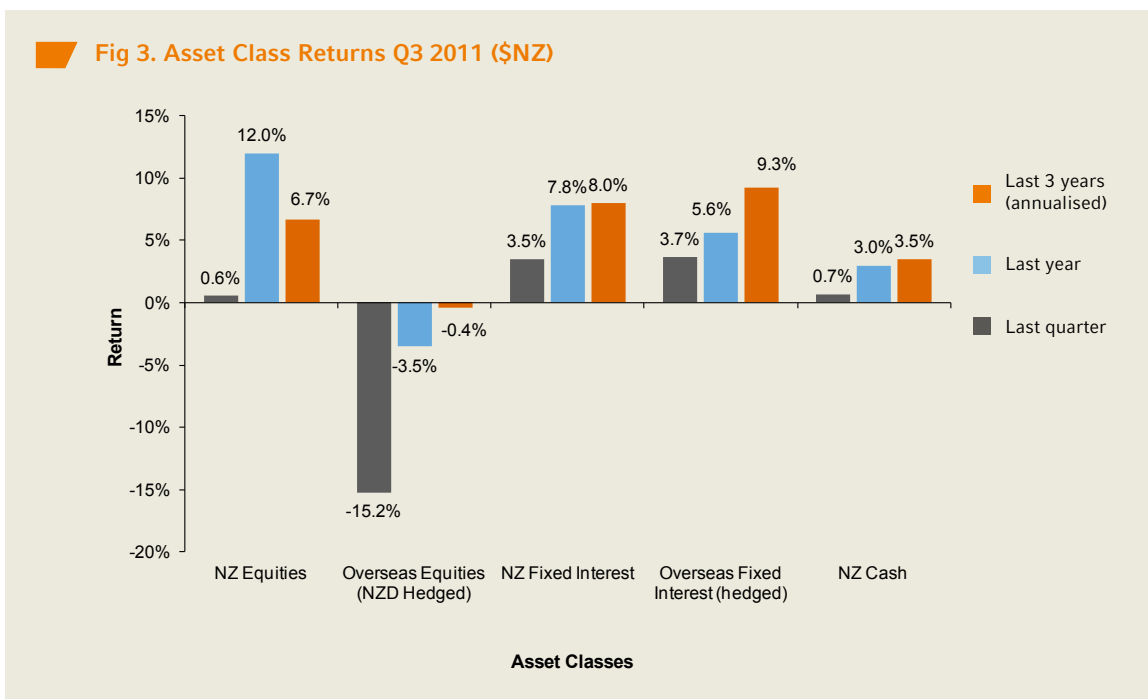


NZ Fixed Interest

NZ Government securities returned 3.2% during the quarter as yields continued their 2011 decline across all maturities, and the yield curve flattened slightly. This was driven partially by a decrease in expected government stock supply following the release of the May Budget, which indicated a reduced issuance of debt in the future in order to achieve a more rapid return to budget surpluses.

Global Real Estate

The global real estate securities market declined dramatically over the quarter, with the FTSE EPRA/NAREIT Index dropping 16.3% in NZ dollar hedged terms. All regions performed negatively during the quarter, with Europe (-23.3%) turning in the weakest performance. Despite fears of a hard landing in China, the more defensive Australian market and the already-discounted Japanese market were somewhat insulated from these regional macroeconomic issues. Real estate securities in the US declined 14.9% outperforming the broader global index.



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

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.

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.

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.