

IN PRIVATE

NEWSLETTER SUMMER 2009
NEW ZEALAND EDITION

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WELCOME TO THE SUMMER EDITION OF IN PRIVATE.

2009 has been another eventful year in world financial markets. We have seen spectacular gains in global equity markets as it became clear that the market bottom had been reached. In New Zealand, while many economic challenges remain, we are emerging from recession and can look forward to the future with a measure of confidence.

If the turmoil of the last two years has taught us anything, it is the value of rigorous financial discipline and an objective, independent perspective. These principles lie at the heart of the Private Bank approach.

On behalf of Private Bank I would like to thank you for your support during 2009, and wish you a very happy and safe festive season.

JOHN BODY

Managing Director, Private Bank

Mortgage rates... to fix or not

The Reserve Bank may have signalled that they are keeping the Official Cash Rate at current levels until the second half of next year, but this has not stopped fixed mortgage rates from rising. While the floating rate is at a 40 year low, fixed rates of 3 year duration or longer are at levels above their decade average, and therefore look “expensive”. Even the once popular 2-year mortgage rate is not that much below decade average levels, in contrast, floating and short term fixed rates look attractive compared to the historical average.

Certainly, the window for getting attractive long-term rates has closed for this cycle. The mortgage curve (the difference between long term fixed and floating rates) is the steepest it has ever been. This is a big difference from a few years ago when the mortgage curve was inverted, making fixing a more attractive proposition, especially when the Reserve Bank was increasing the Official Cash Rate.

New regulatory and liquidity rules that New Zealand banks have to follow, and other structural changes currently underway, mean the yield curve will unlikely return to an inverted shape for some time. This means the shorter lending terms will continue to offer the cheapest rates, and borrowers who want certainty in their borrowing costs will need to pay a premium for fixing for longer durations.

The obvious downside is that targeting the cheapest part of the mortgage curve carries more risk and will subject borrowers to greater fluctuations in borrowing costs. But on the brighter side, as more borrowers gravitate towards floating and short term rates, monetary policy has greater potency. For this reason, we believe the Reserve Bank will have confidence in keeping the Official Cash Rate at current low levels for longer to provide support to the economy. When the time finally comes to raise them, the impact on consumer spending and on the housing market will be more immediate, which also means that the Official Cash Rate will not need to rise anywhere near as far.

For borrowers, the trade-off is clear, you can pay a premium for certainty, or take the cheaper rate on offer but expose yourself to greater volatility.

If you'd like to receive regular updates on trends and advice on property markets, ask your Private Banker how you can subscribe to Property Focus, a monthly publication published by the Economics team.

Khoon Goh
Senior Economist
Economics team

Attracting Overseas Investors

RECENT CHANGES TO THE NEW ZEALAND MIGRANT INVESTMENT POLICY MAY BE OF INTEREST TO MANY OF YOU WITH FAMILY OR FRIENDS SEEKING NEW ZEALAND RESIDENCY.

The changes offer increased flexibility and are designed to attract more overseas investors to New Zealand.

“The previous policy had a number of restrictions,” says Manager Private Clients Evan Veza. “One of the restrictions that deterred investors was the requirement to have a significant active investment in New Zealand firms. Under the new rules, investors have more choice about where to invest. For example, they can now invest in New Zealand businesses through either debt or equity. That means that conservative investors who prefer a portfolio of high quality bonds are now able to meet the new visa requirements.”

A number of other requirements have also been relaxed. The Investor Plus category requires an investment of NZ\$10 million for three years in New Zealand.

There is no longer an age restriction in this category, and no English language requirement.

The Investor category requires an investment of \$1.5 million for four years in New Zealand, and both age and English language requirements have been relaxed. (For more details on the new categories, visit the Immigration New Zealand website www.immigration.govt.nz or contact your Private Banker).

For investors interested in New Zealand residency, Private Bank can offer investment solutions tailored to the requirements of the new policy.

“We have had a number of discussions with Immigration New Zealand on the new policy,” says Evan Veza. “We can provide an Investment Management solution designed to meet Immigration

New Zealand requirements. We can also tailor an Investment portfolio to the client’s specific investment preferences, with a portfolio of New Zealand listed bonds, shares, or any combination.”

An additional benefit offered by Private Bank is the detailed online reporting we provide on clients’ portfolios. This makes it easier to provide the information that Immigration New Zealand requires, as well as providing comprehensive tax reports.

“Our goal is to provide new migrants with a single point of contact in New Zealand for all their financial needs, from day to day personal banking through to lending, investments, insurance and more,” says Evan Veza.

For more information on the new Migrant Investment policy and how we can assist, please talk to your Private Banker.

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An International Perspective

ACHIEVING CONSISTENTLY GOOD INVESTMENT RETURNS OVER A LONG PERIOD REQUIRES CONSIDERABLE KNOWLEDGE AND UNDERSTANDING OF FINANCIAL MARKETS.

When it comes to global share markets, the person charged with providing much of that insight for ANZ Private Bank is Head of Equities, Doug Bell.

Doug is a member of the Regional Investment Committee which sets the overall investment strategy for Private Bank. His role is to provide the Committee with detailed analysis of trends and developments in global equity markets.

Once the overall strategy is set, Doug also plays an important role in tailoring it to the New Zealand situation and applying it to client portfolios that include global equity investments.

Originally from England, Doug worked as a research analyst for a leading broking firm before taking up his role with Private Bank.

“From an intellectual perspective, equity markets are extremely complex,” he says. “What makes them so interesting is that they’re both an art and a science. You need to understand the fundamentals,

but that’s not enough in itself and having an understanding of the expectations reflected in the market is crucial.”

“As we’ve seen over the past 2 years or so, sentiment can swing from one extreme to another. When emotion is running high it can be very difficult and very uncomfortable to take a rational view, but it’s at these extremes that the best opportunities often arise. That’s one very good argument for having your investments professionally managed.”

Private Bank’s approach to investing is based on a long-term view of markets – making as few changes as possible, but having the discipline to adjust your approach when it’s necessary.

“It’s important to understand how markets behave over long periods of time, and the part that both sentiment and economics play. From a global equities perspective we focus on what is happening in markets, rather than on individual stocks. Our

approach is to identify trends in different markets and take a position. At the moment we are overweight in global equities for the first time in a long period.

“We believe that equity markets in some emerging economies (such as India) may be entering a long-term bull market. Developed markets, on the other hand (e.g. the US and Europe), may well be going through a long-term bear market - although there will be shorter term opportunities within that, as we saw from 2003-2007 and this year. Our market weightings reflect our views at any particular time.

“To me, the key to Private Bank’s success is our Regional Investment Committee. Members bring some strong views to the table and the debate is always robust. The process ensures we look past the emotion and take a considered, long-term view. It’s a very challenging, but very effective approach.”

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Insight into the Secular Review

IN AUGUST, PRIVATE BANK HELD ITS INAUGURAL SECULAR FORUM.

The purpose of this forum was to devote two days to considering the long term forces and drivers that are likely to shape investment markets over the next 5 – 15 years.

The forum consisted of a day of debate and discussion between Private Banking's Regional Investment Committee (RIC) members, 30 other professionals from ANZ and National Bank and a number of external speakers who were invited to lead discussions on four subjects; The aftermath of a financial crisis, A secular deleveraging, Demographics and The end of the oil age?

On the second day the RIC took the outcomes of the forum and attempted to build a secular framework or outlook for global and local investment and asset markets.

Attempting to identify secular shifts and trends in a manner that may be investable may be an overly ambitious

task but it is still a highly valuable and worthwhile process and discipline for investors to undertake on a periodic basis. It helps us to avoid getting drowned in the short term 'noise' that surrounds financial markets, and occasionally a revelation will come along that wouldn't have been seen otherwise.

Whilst this year's forum and review may not have thrown up any such revelations, it certainly helped crystallise our views on the relative attraction, from a secular basis, of selected emerging markets, and possibly Japan, compared to the more developed markets. It reinforced our view that growth is likely to be weaker going forward than what it has been in recent years and, as a result, inflation pressures are likely to be still some way off in the future. In such an environment cash returns will remain modest and fixed income markets have probably exhausted the remarkable tailwind they have enjoyed for several decades.



A white paper is available which summarises the two day process – providing an insight into the discussions that took place around the four topics and the conclusions reached. If you would like to receive a copy, please contact your Private Banker.

Guy Fisher
Head of Investments

Private Bank Portfolio Performance

INVESTORS IN GLOBAL FINANCIAL MARKETS HAVE EXPERIENCED A BUMPY RIDE OVER THE LAST FEW YEARS.

Global equity markets fell 60% between October 2007 and March 2009 before rallying again strongly in recent months. In currency markets the New Zealand dollar has traded between 0.49c and 0.81c against the US dollar over the same period, while the Official Cash Rate has fallen from a high of 8.25% to its current level of 2.50%. Global and local bond markets have also witnessed unprecedented turbulence.

In that kind of environment a simple buy and hold strategy, which had worked so well for many investors during the bull market that ran from 2003 to 2007, was no longer appropriate. At Private Bank we recognised that the world was changing, and our recent strong performance had been driven by two key things – positioning portfolios well in the lead up to the global financial crisis, and proactively managing portfolios as the crisis unfolded and as the recovery took hold. This

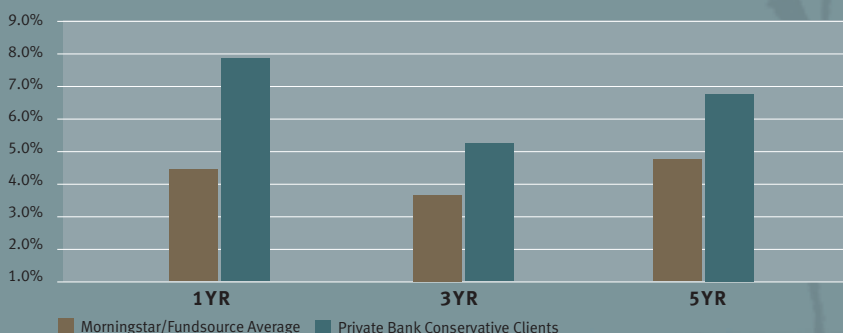
has meant making some hard decisions, but ultimately our actions have been rewarded and our clients have benefited from sound investment decision-making by our Regional Investment Committee and our disciplined approach to managing portfolios.

The chart shows the performance of the typical Private Bank Conservative client compared with the Fundssource and Morningstar universe of Conservative and

Defensive managed funds. It is hard to make direct comparisons since no two Private Bank portfolios are identical, and there is some variability in the Morningstar and Fundssource data, but the overall message is clear – during what has been a very challenging period, we can hold our heads up high.

Guy Fisher
Head of Investments

Portfolio performance to 30 September 2009



Spotlight on lending

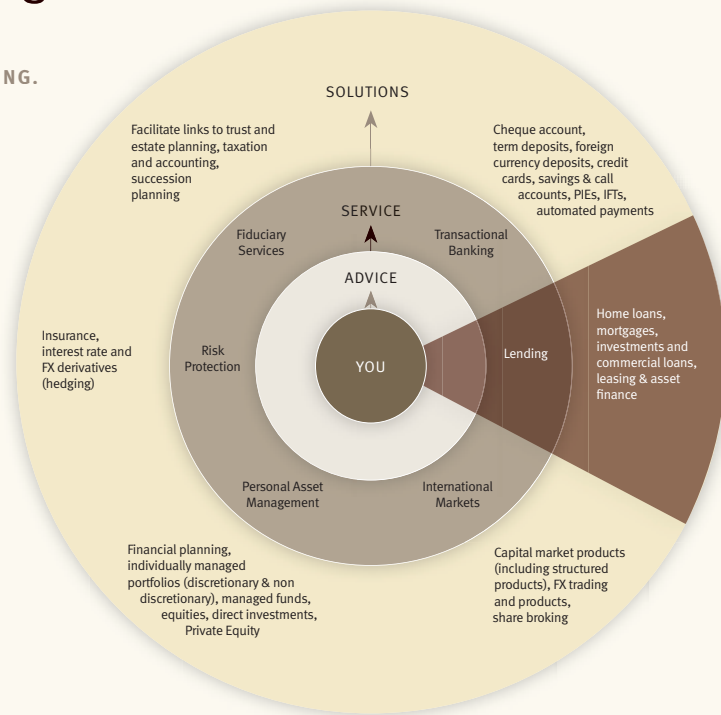
IN EACH ISSUE OF IN PRIVATE WE FOCUS ON A DIFFERENT PART OF THE PRIVATE BANK OFFERING. IN THIS ISSUE WE LOOK AT LENDING.

There are many ways of building wealth. For many people an important part of the wealth creation strategy is leverage. For clients who are looking to accelerate their personal wealth, leveraging into the purchase of assets that will increase in value over time can make a valuable contribution as part of a properly structured investment portfolio. Leveraging can also be an effective way to accumulate a more diversified range of assets.

ANZ Private Bank's specialist lending team offer a comprehensive range of lending and credit services to assist clients to achieve their financial, business and lifestyle goals.

Given New Zealanders' attraction to property, we assist many clients with borrowing for the purchase of a family or holiday home. We also provide lending for clients looking to build residential and commercial property portfolios. Both variable (floating) and fixed interest rate options are available and we can assist with structuring your lending to fit your particular circumstances. Your Private Banker can also introduce you to our specialist Property Finance team, who have particular expertise in commercial property development.

Other lending services include term loans for capital or investment purposes, also with variable and fixed interest options, as well as personal loans.



Our Holistic Offer

At ANZ Private Bank our goal is to provide a complete financial service for you. If you are a business owner we can introduce you to our business lending and working capital specialists, who can work with you to structure a solution tailored to the needs of your business.

At the more complex end of the scale, we can provide a full range of foreign exchange services including foreign exchange hedging, enabling you to lock in exchange rates for international transactions before you make them. We can also provide you with bank guarantees to support your commitments to third parties in certain

circumstances – for example, deposits for future-dated property transactions.

For your day to day requirements, ANZ Private Bank also offers overdraft facilities as part of our transactional banking services, plus a full range of credit cards.

If you would like to find out more about how we can assist with any of your borrowing requirements, please talk to your Private Banker.

IN PRIVATE

We'd like to hear from you

We welcome your feedback. Please let us know about any suggestions you might have for improving In Private, including the type of articles you'd like to read. Contact your Private Banker or email

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A copy of the Bank's, John Body's, Guy Fisher's, Doug Bell's, Evan Veza's, Khoon Goh's and your Private Banker's Disclosure statement, prepared under the Securities Markets Act 1988 is available on request from your Private Banker free of charge.