



MACQUARIE QUARTERLY



October 2009

Macquarie Private Wealth
A world of opportunities



MACQUARIE

CONTENTS

Cover

Economic update

Inside

Economic update

Staff updates

Is the bond market the next bubble?

Mainland Foundation
Canterbury Netball

International outlook

Investing offshore

Australian equity strategy –
Macquarie Research

New staff

Back

Macquarie supports World
Vision

Contact Details

Economic update



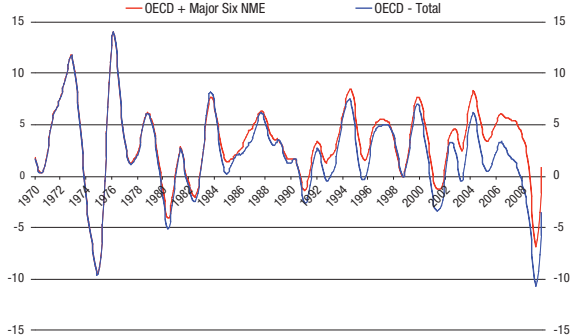
Riccardo Briganti
Head of Research
Macquarie Private Wealth

During September, Riccardo Briganti, Head of Research for Macquarie Private Wealth, presented throughout New Zealand sharing his insights on the economic and financial outlook for 2009-2010. Riccardo highlighted how the

current conditions and financial environment may affect the investment decisions of New Zealand investors. In addition to those presentations, Riccardo provides further insight...

Economies around the world are bouncing back faster than expected. The OECD leading indicator, which provides a forward-looking measure of growth in the developed world, has risen substantially during the past few months. When the non-member economies (NME) of Brazil, Russia, India, China, Indonesia and South Africa are included, the indicator is also back in positive territory following the worst decline since the mid-1970s.

OECD Leading Indicator



Source: OECD and MPW Research

In response to the improving economic outlook, sharemarkets have rebounded. From its low in March, the Australian sharemarket has risen by more than 40%. The performance of the New Zealand sharemarket has not been as meteoric, but has still risen by more than 20% during this period.

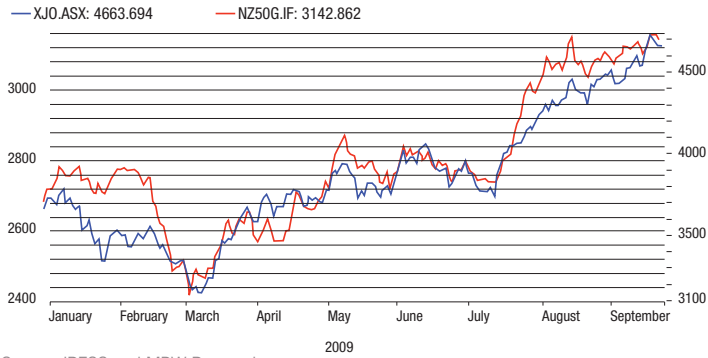
The best-performing stocks and sectors during this period have been those most closely linked to the economic cycle. For example, the Industrials sector, which includes such stocks as Leightons, Brambles and Toll Holdings, has risen more than 60% during this time, while the Consumer Discretionary sector, which includes David Jones, Harvey Norman, JB Hifi and Pumpkin Patch rose by more than 50%.

(continued over)

Call 0800 742 737
macquarieprivatewealth.co.nz

FORWARD thinking

Sharemarket performance – ASX200 and NZX50



Source: IRESS and MPW Research

From depression to recovery

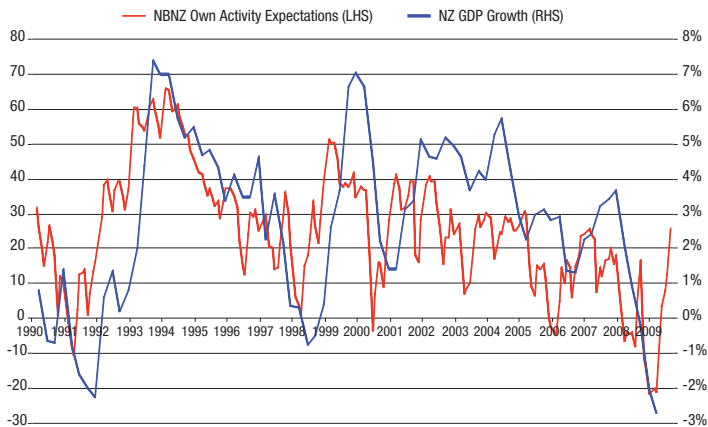
Six months ago, most economic discussions centred around the possibility that the world was heading for a repeat of the Great Depression, as well as the likelihood of corporate collapses and a double-digit unemployment rate. The debate has now shifted to the risk that we are heading for a double dip recession. That is, the economy recovers but very quickly collapses again. This occurred in the early 1980s and can be seen as the W-shape in the first chart between 1980 and 1984.

I do not believe the double-dip scenario is the most likely outcome. Both monetary policy and fiscal policy have been effectively used to reflate the global economy, and this is clearly seen in many economic indicators globally, including in Australia and New Zealand.

The Australian economy has emerged relatively unscathed from the global turmoil and strong signs of a recovery are now evident. Consumer sentiment has jumped in response to low interest rates and the Government stimulus package. This has been matched by an improvement in business confidence.

Previous recessions saw the unemployment rate rise above 10%, but the current slowdown has seen the unemployment rate stay below 6% in New Zealand. While unemployment may rise further in the months ahead, signs of improvement in the economy mean it is unlikely to reach the 8%-8.5% level previously expected by the Government, the Reserve Bank and many economists.

New Zealand GDP growth and business confidence



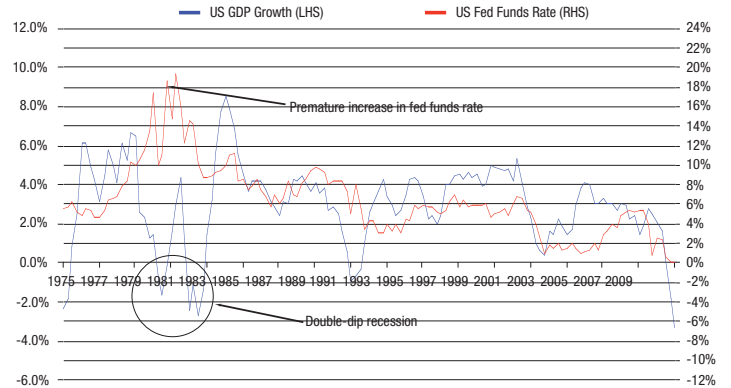
Source: NBNZ, IRESS and MPW Research

The New Zealand economy has been harder hit by the global downturn, but is also showing signs of emerging from recent weakness. The NBNZ business confidence survey posted its fifth consecutive improvement in August. This survey tends to lead GDP

growth by about six months, suggesting the New Zealand economy will be back in positive territory before too long.

Finally, the double-dip recession of the early 1980s occurred because the US Federal Reserve was too quick to raise interest rates when initial signs of growth emerged. The US Federal funds rate was cut to less than 10% in July 1980 from a high of 18%, but was quickly returned back to above 18% by the end of 1980. This choked off the incipient recovery and precipitated the second dip in growth.

US GDP growth and interest rates



Source: IRESS and MPW Research

This is clearly not the case in the current environment, where the US Federal funds rate has been close to zero for the past nine months. Together with other expansionary measures, this suggests that an economic recovery will be sustained well into 2010.

“

The Christchurch office recently presented Lifeline Canterbury with a donation for \$6,670 from Generator Notes, this followed a \$2000 donation from contributions from the Macquarie Canterbury office.

”

STAFF UPDATES



Anne-Marie Holland, Lifeline Canterbury Inc, receiving a \$6,670 cheque from Simon Gilroy, Macquarie Christchurch Manager.

Is the bond market the next bubble?



Scott Aucutt

Renowned investors such as Warren Buffett, CEO of Berkshire Hathaway, and David Swensen, manager of Yale's endowment fund, have noted in recent months that increasing inflation, caused largely by the stimulus packages in the US, Europe and China, could deflate the bond market.

The argument suggests that when you reflate economies with trillions of dollars of stimulus you quickly accelerate inflationary levels. This in turn drives yields higher, and thus diminishes the value of longer-term bonds.

NZ bond holders would understandably be nervous at hearing these comments and the potential effect on their wealth. We believe that although these suggestions have merit, NZ investors are well protected from the full effect of this outcome.

The argument is predicated upon sovereign or Government bonds being more adversely affected as they form the

"benchmark bond rates" and are being issued in huge volumes to fund the stimulus packages. Corporate or bank bonds, which trade at margins over the benchmark bond rates, had been priced during the worst period of the financial dislocation. With the recovery in markets and easing of credit terms, these margins have reduced and will likely reduce further, suggesting higher benchmark bond rates will be tempered by the lower corporate margins.

The New Zealand Government has raised more debt but has not actively reflat the economy. In addition, our economy is recovering more slowly and inflation is not an issue (currently at 1.9% in June 2009, down from 3% in March 2009) nor, we believe, will it be for at least 12 to 18 months given that there is plenty of capacity available to be filled before cost pressures arise.

Another factor to consider is that if bond markets were affected, clients who hold bonds have regular maturity dates in their portfolios. This will protect valuations as there will be bonds maturing most years that will be reinvested into the prevailing markets at the new yields. These markets actually offer opportunities to improve credit quality and extend duration of fixed-interest portfolios.

Investment examples

Security	Rating	Maturity	Coupon	Yield	Price	Face Value	Cost	Income	Interest Payments
ANZ Callable Bond	AA-	15/09/2011	7.16%	6.65%	1.013	\$ 20,000	\$ 20,254	\$ 1,432.00	Mar/Sep
Works Infrastructure Bonds	BBB-	15/09/2012	9.65%	8.20%	1.041	\$ 20,000	\$ 20,822	\$ 1,930.00	Mar/Jun/Sep/Dec
BNZ Perpetual Preference Share	A+	28/03/2013	9.89%	9.20%	1.045	\$ 20,000	\$ 20,900	\$ 1,978.00	Mar/Jun/Sep/Dec
Powerco Ltd Bond	BBB	29/03/2013	6.39%	8.20%	1.012	\$ 20,000	\$ 20,230	\$ 1,278.00	Mar/Jun/Sep/Dec
Rabobank Bonds	AAA	04/09/2014	6.35%	6.20%	1.010	\$ 20,000	\$ 20,206	\$ 1,270.00	Mar/Sep

This table has been included for illustrative purposes only and has been prepared on the basis of certain assumptions. Whilst every effort has been made to ensure that the assumptions on which forecasts are based are reasonable, the forecasts may be affected by market movements, incorrect assumptions, or known or unknown risks and uncertainties, which may cause the actual returns to differ.

“ Mainland Foundation Canterbury Netball

Christchurch Adviser Assistant Kelly Hutton has earned a recall to the Canterbury Netball team following a seven year absence. Kelly last appeared for the Canterbury Flames in 2002, leaving Christchurch that year to work and travel in the UK.

Kelly admits that at the age of 35 she thought her netballing days at a representative level were over and initially put herself forward for the Canterbury B squad. However, a strong trial and desire to return to form has seen her cement her spot in the A team alongside Tactix defenders Charlotte Knight and Victoria Smith.

Canterbury has faced a tough NPC Division One campaign, travelling throughout September, with finals in Invercargill in the first weekend of October.

We wish Kelly and the Canterbury team the best of luck.



International outlook

Investing offshore



Brad Gordon

As the improving economic data momentum shifts from the emerging markets to the developed nations, a number of clients are looking at options to gain access to international investments.

Macquarie's strategists expect to see significant improvements through 2010 in First World economies such as the US

and UK, as the housing markets appear to have bottomed and forward indicators in these regions are improving. At the same time, improvement in these economies should prove to be a double benefit for New Zealand investors as their currencies are likely to strengthen against the New Zealand Dollar as funds flow into their home assets.

The difficulty with investing offshore is that a lot of news and trading information happens while we sleep in New Zealand. However, there are a number of ways to mitigate risk and gain a diversified portfolio. Examples of these are:

- **Direct investment in offshore companies.** Your Investment Adviser is able to access research on individual companies and funds through Morningstar.
- **Companies listed in New Zealand or Australia** that have operations offshore include Newscorp, Brambles, Billabong and Fletcher Building, as well as major miners such as BHP and RIO.

- **Passive index tracking funds.** A number of listed trusts track certain indices or baskets of shares. For example, iShares and State Street offer very low-cost and highly transparent exchange traded funds (ETFs). These passive funds can also be used as a low-cost means of gaining access to certain regions or sectors. These ETFs are listed and can be accessed through the ASX (Australian Securities Exchange), NYSE (New York Stock Exchange), and/or the London Stock Exchange.
- **Actively managed funds.** This is effectively outsourcing the research and administration to specialists focusing on international equities. Macquarie has research on and recommends a number of active fund managers. Active management aims to add value above a certain benchmark, such as the MSCI World Share Index or similar. Our preferred international managers include the Walter Scott International Share Fund (which is a NZ PIE structure) and Platinum Asset Management. The latter has a number of region-focused funds which are Australian unit trusts.
- **UK Listed Trusts.** These actively managed exchange traded funds are a blend of the above two styles. They are listed on the London Stock Exchange with some, such as Foreign & Colonial Investment Trust and Caledonia Investment Trust, having a dual listing on the NZX.

For more information on how to gain access to international investments and what might be suitable for you, please speak to your Investment Adviser.

Australian equity strategy

– Macquarie Research September 2009 Equity Market Outlook

As at 28 August 2009, our model is forecasting a total shareholder return (TSR) for the S&P/ASX 200 of +22.1% and a 12-month target ASX200 index level of 5,293. This includes a capital return of +17.9% and dividend yield of 4.2%. Within this, the Resources TSR forecast is +11.6% and Industrials +26.4%.

For the first time since March 2008, we have reverted to the use (preferred) of "bottom up" rather than "top down" analyst earnings per share growth forecasts in our market fair value analysis. With the large gap that had existed between "top down" and "bottom up" earnings per share growth forecasts for Financial Year 2009 (now an actual) and Financial Year 2010 all but bridged, it is necessary that we now revert to "bottom up".

Our updated TSR is noticeably higher than forecasted previously (+15.1% upside to fair value on 6 July). The lift in the "fair value" is due largely to the stronger earnings per share growth due to the transition to "bottom-up" forecasts, the earnings upgrades delivered by the recent reporting season, and the earnings roll forward capturing more of Financial Year 2011.

It is notable that of our +17.9% TSR, a little less than half of this return flows from an assessment of the market currently below "fair value". The remainder of the forecast reflects the roll forward impact of higher earnings per share growth (current one year forward earnings per share growth -5.7%) moving to the forward earnings per share growth a year from now (current two year forward earnings per share growth +26.2%). It is also noteworthy that under our TSR, the All Industrials one year forward price earnings ratio (PER) would be 14.9x and the All Resources 15.7x, not exceedingly challenging, if indeed, the earnings growth forecasts for Financial Year 2011 hold around current levels.

Call 0800 742 737
macquarieprivatewealth.co.nz

FORWARD thinking

Cash rates matter – but the US matters more

With Australia likely to lead the developed world by raising short-term interest rates (possibly by the end of 2009), we examine the implications of cash rate rises for the Australian share market and, in particular, the impact on sector and stock returns.

The impact of cash rate rises on the Australian equity market's return is variable. Our analysis suggests, however, that while the turn in the Australian cash rate cycle is important, particularly relative returns, the Australian equity market return can be more affected by external events. Indeed, our analysis suggests the dominant driver of the Australian market's returns (absolute), particularly around significant economic turning points, is the performance of the US share market.

Cash rate rises are usually a signal that economic growth is increasingly probable and the change in monetary policy is a clear signal of that. It also tends to signal the economy is transitioning from the first (acceleration) phase of an economic recovery to the second (maturing) phase.

Our analysis suggests the market does respond to this. It also suggests, however, that this development is reflected more in relative rather than absolute returns.

The returns of sectors and stocks that have previously benefited from falling interest rates are clearly the most at risk once Australian cash rates begin rising, with housing and consumer-related the first sectors to be impacted. Our analysis suggests, however, that investors have time to respond. It appears it is not a case of moving from a very bullish to a bearish stance in one step. Nevertheless, once cash rate rises commence (most particularly US Federal Funding rates), the risks for Australian equity investors start to rise.

Continuing the move offshore

The US is now in the midst of the largest inventory cycle since 1974-75. Businesses cut inventories massively through 2008 and early 2009. With new orders now improving, they are faced with a shortage of stock on the shelves. Aggressive restocking is now beginning to drive a strong manufacturing recovery.

We have reviewed the structure of our recommended portfolio in light of recent US and UK developments. As a result, we have further reallocated portfolio exposure to offshore earnings.

China and Australia already have strong economic recoveries underway. As a result, Chinese authorities are already tapping the brakes, and the authorities are likely to do so in Australia by late this year. In the US and UK, monetary and fiscal stimuli are likely to remain firmly in place well into 2010, while the next few months should see a rapid improvement in their operating data, especially housing and consumer spending.

This month we are adding further exposure in the Australian equity portfolio to these regions via the addition of Westfield Group (WDC) and a further increase in the existing allocation to National Australia Bank (NAB). To fund these additions, the locally orientated Stockland Group (SGP) and ASX Limited (ASX) have been removed, while the large allocation in Commonwealth Bank of Australia (CBA), given its domestic bias, has been reduced.

Last month we began shifting the focus of our portfolio offshore to capture the gathering economic turnarounds in the US and the UK. We are now continuing this process with the addition of further industrial exposure to those two economies. At the same time, we suggest investment risks in Australia are rising.



Alistair Ross
Investment Adviser



Janelle Lovegrove
Adviser Assistant

NEW STAFF

We are pleased to announce the appointment of Alistair Ross to the Auckland team as an Investment Adviser. Alistair will also be joined by Kristan Mines, another new recruit, within the next few months.

Alistair and Kristan join us from Goldman Sachs JB Were. They have been actively involved in the NZ markets for more than 15 years. Alistair has particular experience in managing diversified investment portfolios to meet the income and growth objectives of high net worth individuals, trusts and charitable organisations throughout the North Island.

Janelle Lovegrove has recently joined Macquarie Private Wealth's Auckland office as an Adviser Assistant to Alistair Ross and Kristan Mines.

Janelle has worked in the financial services industry for nine years, including two years in London in various support roles. She has recently completed her Bachelor of Business Studies at Massey University.

In her spare time Janelle enjoys running, snow sports, travelling and spending time with family and friends.

Call 0800 742 737
macquarieprivatewealth.co.nz

FORWARD thinking

Macquarie supports World Vision

Macquarie Private Wealth is proud to announce we are continuing our support of World Vision in its global relief and development programs to assist those in need. During the past five years, Macquarie has donated a total of \$369,999. This included \$74,000 presented at our Market Outlook presentations during September 2009.

In the past, our donations have been used to fund projects in Cambodia and Mongolia. A division of World Vision – Vision Fund – works in these countries to assist entrepreneurs by providing them with micro-credit and appropriate mentoring.

More than 4,000 Cambodians, the majority of them women, have lifted their families out of poverty by investing in small businesses (micro-enterprises) aimed at meeting the needs of their communities.

This assistance to developing nations helps them move from poverty to self-sustaining communities. By using a 'hand up' and not a 'hand out' approach, Vision Fund provides a culture of empowerment for those living in poverty so they can provide a better life for themselves and their communities.



James Malden presents a cheque to Les Stephenson, Acting CEO World Vision

Macquarie Private Wealth feels privileged to be associated with such a worthwhile organisation and its global relief programs.

To find out more about these opportunities, call your Macquarie Adviser

Auckland

Level 17, Lumley Centre
88 Shortland Street
Auckland

☎ 09 357 6931

Wellington

Level 5, The Todd Building
95 Customhouse Quay
Wellington

☎ 04 462 4999

Christchurch

Level 8, Forsyth Barr House
764 Colombo Street
Christchurch

☎ 03 366 8851

Disclaimer:

The Disclosure Statements for Macquarie Equities New Zealand Limited and Alastair Ross are available free of charge by contacting us on 0800 742 737. Kristan Mines' Disclosure Statement will also be available free of charge from 9 November 2009. Macquarie Private Wealth's services are provided in New Zealand by Macquarie Equities New Zealand Limited (MENZ). Neither MENZ nor any member of the Macquarie Group of companies is registered as a bank in New Zealand under the Reserve Bank of New Zealand Act 1989.

Macquarie Bank Limited ABN 46 008 583 542 (MBL) is a company incorporated in Australia and authorised under the Banking Act 1959 (Australia) to conduct banking business in Australia. Neither MENZ nor any Macquarie Group company other than MBL are an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Australia), and their obligations do not represent deposits or other liabilities of MBL. MBL does not guarantee or otherwise provide assurance in respect of the obligations of MENZ or any other Macquarie Group company.

This newsletter contains research that has been prepared for the use of the clients of Macquarie Group Limited and its related entities (the "Macquarie Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction.

This research is general advice and does not take account of your objectives, financial situation or needs. Before acting on this general advice you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

There are risks involved in securities trading. The price of securities can and does fluctuate and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

This research is based on information obtained from sources believed to be reliable but we do not make any representation or warranty that it is accurate, complete or up to date. We accept no obligation to correct or update the information or opinions in it. Opinions expressed are subject to change without notice. No member of the Macquarie Group accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. The Macquarie Group or its associates (including MENZ), officers or employees may have interests in the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, lender, director or adviser. Further, they may act as market maker or buy or sell those securities as principal or agent and, as such, may effect transactions which are not consistent with the recommendations (if any) in this research.

LEI:ASX - Leighton Holdings Limited The Macquarie Group acted as Joint Lead Manager in respect of Leighton Holdings' accelerated pro-rata entitlement offer as announced 14 August 2008.

BHP:ASX - BHP Billiton Limited The Macquarie Group is acting for Rio Tinto in relation to its proposed Western Australian Iron Ore Production Joint Venture with BHP Billiton as announced on 5 June 2009. The Macquarie Group acted as adviser to Rio Tinto Plc in relation to the proposed acquisition of Rio Tinto Plc and Rio Tinto Limited by BHP Billiton Limited as announced on 8 November 2007.

RIO:ASX - Rio Tinto Limited The Macquarie Group is acting for Rio Tinto in relation to its proposed Western Australian Iron Ore Production Joint Venture with BHP Billiton as announced on 5 June 2009. The Macquarie Group acted as Joint Global Coordinator in relation to the Rights Issues by Rio Tinto PLC and Rio Tinto Limited as announced 5 June 2009. The Macquarie Group acted as Advisor to Rio Tinto Ltd, and Rio Tinto PLC in relation to its strategic partnership with Chinalco announced 12 February 2009. The Macquarie Group acted as adviser to Rio Tinto Plc in relation to the proposed acquisition of Rio Tinto Plc and Rio Tinto Limited by BHP Billiton Limited as announced on 8 November 2007.

FBU:NZX - Fletcher Building Limited The Macquarie Group acted as joint lead manager and underwriter to Fletcher Building Limited in respect of its institutional placement and share purchase plan as announced 1 April 2009.

CBA:ASX - Commonwealth Bank of Australia The Macquarie Group is acting as Joint Structuring Advisor and Joint Lead Manager to Commonwealth Bank of Australia in respect of its Tier 1 hybrid offer as announced 28 August 2009.

The Walter Scott Global Share Fund ("Fund") is offered by Brook Asset Management Limited ("Brook"). The Investment Statement for the Fund, dated 9 July 2009, is available by contacting your Macquarie Private Wealth adviser. Applications to invest must be made on the application form accompanying the Investment Statement. In deciding whether to acquire, dispose of or continue to hold an investment, you should consider Investment Statement. Investments in the Fund are not deposits with or other liabilities of Macquarie Bank Limited ABN 46 008 583 542, Brook, or of any Macquarie Group company and are subject to investment risk, including possible delays in repayment and loss of income or principal invested. None of Macquarie Bank Limited or any other member company of the Macquarie Group including Brook guarantees the performance of the Fund, the repayment of capital from the Fund, or any particular rate of return.

☎ 0800 742 737

@ mpwnz@macquarie.com

▶ www.macquarieprivatewealth.co.nz

FORWARD thinking

