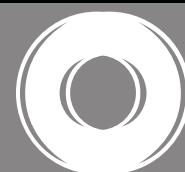


MACQUARIE QUARTERLY

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Macquarie Private Wealth

A world of opportunities



MACQUARIE

CONTENTS

Cover

The politics of a challenging economy

Inside

Australian strategy

The Macquarie Premium Portfolio Service (MPPS)

New Zealand Companies have returned to the NZ debt markets after a long hiatus

Light at the end of the NZ Real Estate Investment Trust Tunnel

Macquarie Group announces its September half year results

Adviser Profiles

Macquarie in the community

Back

Staff Stories

Contact Details



The consequences of the financial crisis of 2008 will have economic implications through 2009.

What a year! It has been referred to as the perfect storm but given the length and severity of the sequence of events since sub prime, it has become the year after the perfect storm.

Our focus has been on the health and financial welfare of both you and our team. Stress, whether health or financial, is real, and we hope by being available to talk to you we have assisted you through the year.

It is important to remember that having a plan that incorporates your investments, administration requirements and your tax position can be key to managing your portfolio. Macquarie's Premium Portfolio Service provides this service to clients and if you haven't already set it up, speak to your financial adviser.

All that remains for this year is to wish you and your family well. Enjoy the Christmas holidays and we look forward to working together in what will be a challenging yet exciting new year.

Merry Christmas and have a happy and safe holiday.

John Rowley

The politics of a challenging economy

Global and local New Zealand conditions have changed significantly over the last three months with central banks acknowledging the depth of the economic distress and government spending initiatives announced to help boost economic growth.

Despite official interest rates at 2%, the US Federal Reserve was sufficiently concerned about further deterioration in the financial system and the economy more generally, that it cut the Federal Funds rate by another 1% in October. Other countries have followed suit. The Bank of England has cut rates by 3% over the last 3 months to 2%, their lowest level since 1951 and the European Central Bank has cut rates by 1.75% over the same period taking official European rates to 2.5%.



Riccardo Briganti
Head of Research
Macquarie Equities Limited

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FORWARD thinking

The task of reviving the economy has largely fallen to monetary policy until the recent realisation that the financial crisis had well and truly spilled over into the real economy. With Europe and Japan in recession and the US likely to suffer a second quarter of negative growth, governments have finally been compelled to delve into their coffers to provide fiscal stimulus to the ailing economy.

The UK government announced tax cuts and spending increases amounting to 1% of GDP in its recent pre-budget report. Other European governments also announced stimulus packages. In the US, President-elect Barack Obama announced that spending on a raft of infrastructure projects would help create 2.5 million new jobs.

The US experience is echoed in New Zealand particularly in the political arena. Both countries have undergone a change in Government and have a new leader who is seen as untainted by the past. However, both leaders are likely to be more challenged by the economic environment than by political opposition.

In New Zealand both monetary policy and fiscal policy are being transformed with the change in Government and the increasing realisation by the Reserve Bank of New Zealand (RBNZ) that inflation is yesterday's problem and that reigniting growth is now the major challenge.

Following the co-ordinated global rate cuts in early October, the RBNZ cut official interest rates by 1% in October and by a further 1.5% in December thereby taking the Official Cash Rate (OCR) to 5%. This still leaves New Zealand interest rates uncomfortably high compared to other economies. With the New Zealand economy in recession, inflation no longer posing a significant danger and the global economy in a parlous state, expect further cuts in the months ahead with

the OCR likely to reach 3.5% in the first half of 2009.

On the political front, John Key was elected New Zealand's Prime Minister in November breaking the Labour Party's nine year domination of New Zealand politics. John Key will govern with the support of the ACT, United Future and the Maori parties. In his first major speech at the APEC summit in Peru, John Key focussed on global regulation of credit markets and the removal of global trade restrictions.

Domestically, the major policy initiatives of the new Government revolve around tax cuts and infrastructure. The first major piece of legislation expected to hit Parliament is the tax cut legislation which if passed will take effect from 1 April 2009.

Infrastructure policy is also seen as a major priority with John Key announcing prior to his election win, that the National government would spend \$8.6 billion on infrastructure projects over the next six years including a broadband network, roads and school buildings.

Australian strategy



Neale Goldston-Morris

All major economies are likely to record formal recessions over the next two quarters. The credit crisis is thus far showing no signs of easing and continues to spread its effect across the real economies. It is expected that further government spending packages from virtually every country will only cushion the rate of economic slowdown in the near term. Yield curves are turning increasingly positive, with further

cash rate cuts likely. These moves suggest an eventual economic stabilisation will occur, however given normal lead times, this won't be until the second half of 2009.

As far as the trends seen in the major economies is concerned, Australia is no exception, however, in Australia's case the trend occurred later in the downturn given the earlier support from the commodities boom. The collapse of the latter is leading to a rapid catch up. The weak AUD and the large and ongoing cash rate cuts will soften the rate of the slowdown. Nevertheless Australia, and especially NSW, are likely to be in recession during the first half of 2009.

Solvency is the stock selection priority

In such times, stock selection is done on the basis of solvency, i.e. the ability to financially survive. That is, valuation comes a distant last, behind balance sheet strength,

debt maturity profile and the level of free to invest cash flow (the amount of money in the till each Monday). Those stocks with the financial strength and reasonable earnings certainty can trade on near normal earnings multiples. By contrast, those stocks which are financially vulnerable in a debt constrained environment can trade on a notional price/earnings ratio of 1 and still see the share price fall sharply. This highly skewed situation between the financially strong and the weak will persist well into 2009.

The recommended Australian portfolio remains very overweight defensive, strong balance sheet and positive free-to-invest cash flow. Exposure tends to centre on consumer staples, telcos, healthcare and utilities. All cyclical and financial sectors remain heavily underweight. No exposure is held in mining below the major diversifieds.

The major positions held include WOW, CCL, TLS, SGT, CSL, SHL, ORG, WBC and BHP.

The Macquarie Premium Portfolio Service (MPPS)



Brent Procter

The MPPS is a growing part of our suite of services with full custody taking care of the paperwork headaches often experienced with large and diverse investment portfolios. The tax reports provided at year end have also become an even more important and valuable part of the service, following the introduction of the FDR and PIE tax regimes.

The global financial crisis and the fragility of some of the largest financial institutions and banks around the globe have raised questions around the security of assets held in custody. We trust that the following answers to some of the more common questions will give you additional comfort around the structure of the custody services we use.

Q1. I have heard/read that I don't have 'legal ownership' of my assets in MPPS?

A. The assets in your portfolio are held by a custodian in trust for you. This means you retain 'beneficial ownership' but no legal title. This arrangement facilitates the administration of your portfolio as the custodian manages all paperwork and reporting, whilst you still remain the beneficial owner of your investments.

Q2. Exactly how does MPPS work?

A. The legal structure applying to MPPS is that of a 'bare trust'. Macquarie Equities Custodians Limited (MECL) is the operator and ultimately responsible for provision of the service. MECL also acts as a custodian and has outsourced this function to a sub-custodian, Investment Custodial Services Limited. Its prime function is to provide custodial services to a variety of clients including advisers. Aegis Limited provides the administrative services on behalf of MECL.

Q3. Can my assets be used for securities lending?

A. No. Your shares and funds are held by a custodian in trust for you, and we

will only transact on your account when you (or someone authorised by you) has instructed us to do so.

Q4. Can Macquarie access my assets held on MPPS without my authority?

A. No. Your assets are held separately to the assets of Macquarie Group. They are held in trust for you by a custodian. We provide a reporting and transaction service, but will only transact on your account when you (or a person authorised by you) has instructed us to do so. In essence your assets are not available for use without your express authority.

Q.5. Is the safety of my portfolio linked to Macquarie's share price?

A. No. The safety of your portfolio rests on the fact that the assets you and your adviser have selected are held in trust for you and are held separately to Macquarie's assets and liabilities.

For further information regarding the MPPS, please contact your Financial Adviser or refer to the offer document, which is available free of charge from us.

New Zealand Companies have returned to the NZ debt markets after a long hiatus.



by Scott Aucutt

For many months since the credit crisis began, NZ companies have been absent from the NZ bond markets. The feeling until very recently was that any attempt to borrow from the retail investor would be met with strong resistance and very wide margins.

The sole borrowers in this space have been the five major banks in NZ who have made regular withdrawals in the market. So many times have the banks issued bonds this year that investors were at or near their limits on these issuers. As a result the timing was right for new, or rather lapsed borrowers to return. Initially the first steps were taken by the more secure borrowers with Local Government in the form of Quayside Holdings, owned by Bay of Plenty Regional Council and then Fonterra, Auckland Airport followed by Tauranga City Council. At the same time the Government introduced the Crown deposit guarantee on both bank and finance company deposits for two-year terms. This allowed qualifying

finance companies to come to market with government guaranteed two-year bonds at attractive yields. Both PGG Wrightson Finance and South Canterbury Finance have availed themselves of this opportunity.

By now the retail debt investor's appetite had been wetted and was ready to welcome back their old iconic favourites in the form of GPG, Fletcher Building and Trustpower.

It has been a gradual evolution of investors gaining confidence and corporates testing the waters. One strong outcome is that the cost of credit more accurately reflects the risk and investors are receiving returns more relevant to the risks.

Security	Rating	Maturity	Coupon	Yield	Price	Face Value	Cost	Income	Interest Payments
South Canterbury Finance*	BBB-	8/10/2010	8.00%	8.00%	1.000	\$20,000	\$20,000	\$1,600.00	Mar/Jun/Sep/Dec
ANZ Callable Bonds	AA-	15/9/2011	7.16%	6.94%	1.023	\$20,000	\$20,468	\$1,432.00	Mar/Sep
ASB Bank Bonds	AA	16/7/2013	8.52%	6.31%	1.080	\$20,000	\$22,142	\$1,704.00	Jan/Jul
Genesis*	BBB+	15/3/2014	7.25%	7.25%	1.000	\$20,000	\$20,000	\$1,420.00	Mar/Sep
BNZ bank bond	AA	27/5/2015	8.68%	6.67%	1.093	\$20,000	\$21,860	\$1,736.00	May/Nov

*New Issue - Details to be confirmed and minimum rate is 7.25%.

Light at the end of the NZ Real Estate Investment Trust Tunnel



Simon Gilroy



Michael Youngman

Listed Property Trusts (LPTs) or Real Estate Investment Trusts (REITs) as they are called internationally, have not been immune to the turmoil in financial markets. Since the credit crunch began global REITs have fallen 47%, with those Trusts with high gearing and speculative earnings streams suffering the most. By comparison NZ REITs have fallen 30% reflecting their stronger balance sheets, simpler business models and defensive income streams.

The market has focused on the possible negatives of refinancing debt in a credit constrained environment, property valuation write-downs, the potential for stagnating rents, increased vacancies and potential cuts to distributions. These are all valid, however we still see several trusts offering opportunities in the market.

Our preferred exposures are AMP Office Trust (APT) and Goodman Property Trust (GMT) with our analyst having an "outperform" recommendation on both, with the Trusts trading 28% and 24% below valuation respectively.

APT's portfolio consists of 15 prime CBD office buildings in Auckland and Wellington. APT appeals because it has the strongest balance sheet in the sector (gearing 26%) and the growth outlook for distributions remains positive. Indeed, we believe APT is the only NZ REIT likely to upgrade its distribution guidance for the coming year, as the Trust captures most of the 12% under-renting in its portfolio.

GMT's portfolio consists of industrial and commercial office parks in Auckland and Christchurch, with the Trust emphasising development to drive earnings growth. Management recently reduced the forecast distribution for the current year by 2% due to increasing interest costs and slowing development. While we expect these headwinds will intensify next year, and that distributions will fall a further 5%, we believe GMT's 9.4% projected after tax yield provides downside protection in an environment of falling interest rates. Further, the Trust's high quality portfolio, top quality management, proven development model and strong market position give us confidence that GMT will generate above average rent growth and add value to its property portfolio over the long term.

Note: Both APT and GMT are listed Portfolio Investment Entities (PIEs) and therefore pay tax on behalf of investors.

Given the high after tax yields and a sharply declining interest rate environment the NZ REIT sector looks attractive and likely to outperform the broader market over the next 6-12 months.

REIT	Price (as at 8 December)	Net Tangible Assets	Forecast after tax Dividend	After tax yield (%)	Gross Yield @ 33%
AMP Office Trust (APT)	\$1.02	\$1.64	7.7 cents	7.55%	11.27%
Goodman Property Trust (GMT)	\$1.06	\$1.22	10.0 cents	9.43%	14.08%

Macquarie Group announces its September half year results

Macquarie Group announces its interim results

Macquarie Group recently announced its interim results for the half year ending 30 September 2008. Overall Macquarie Group achieved a sound result amid unprecedented market conditions and after substantial write-downs. Below are some highlights.

- Our half year net profit after tax was \$A604m
- We have a strong funding position: cash and liquid assets of \$A26.3b exceed short-term wholesale issued paper of \$A18.9b and the balance sheet is well matched

- We are in a strong capital position, which is more than 40% above the minimum regulatory requirement
- We are conservatively geared
- We are continuing to adapt businesses to changing market conditions
- We announced an interim dividend \$A1.45 per share (80% franked)
- Our annualised return on equity was 13.9%
- Finally, our employment expenses were down 48% on previous corresponding period driven by significantly lower bonus payment, reflecting shareholder alignment.

While conditions have continued to deteriorate since the last update in July 2008, and significantly from mid-September,

we continue to maintain a cautious stance with a conservative approach to funding and capital.

Unprecedented market conditions make short-term forecasting extremely difficult, however we currently expect the second half of 2009 result to be broadly in line with the first half of 2009. Our operating groups are well placed over the medium-term and remain profitable, well funded and capitalised as well as conservatively geared.

For Macquarie Private Wealth New Zealand we continue to focus on growth, along with the development of new innovative products and services, which will assist us in supporting our clients during this volatile time.

Further information on the results can be found on the ASX website.

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FORWARD thinking



James Malden

ADVISER PROFILE

James Malden recently joined the Wellington office and is responsible for growing the Wellington business. He is looking forward to continuing to help his new and existing investors manage their portfolios during this volatile market and recognises that there is great potential for the team in Wellington to work with more people in the area.

James joins Macquarie Private Wealth from the Bank of New Zealand, where he was a Senior Private Banker responsible for managing investment portfolios and overseeing the Wellington Private Bank operations. With more than 13 years experience in the financial services industry, he has specialised in providing comprehensive investment advice to a range of investors, including trustees, corporates and charitable organisations.

James is married to Penny, and their two children, Hannah (6 years) and Samuel (2 years) ensure that there is never a dull moment in the Malden household. Whenever James is able to slip away from home or the office he can be found mountain biking around the Wellington hills or fishing on the Kapiti coast.



Bryan Shepherd

ADVISER PROFILE

Bryan Shepherd recently joined the Wellington team as an Investment Adviser, specialising in providing comprehensive investment and strategic advice to high net worth individuals, trustees and charitable organisations. He has over 20 years experience in financial services, all within the Wellington region. Bryan joins us from BNZ Private Bank where was a private banker operating in the greater Wellington, Hutt Valley and Wairarapa area. He focused on portfolios of high net worth Individuals providing advice on equities, fixed interest, foreign exchange and Kiwi-saver.

Bryan has a Bachelor of Business Studies and a Graduate Business Diploma endorsed in financial planning. He has attained the status of Certified Financial Planner, is a member of the Institute of Financial Advisers and a Senior Associate of the Financial Services Institute of Australasia.

Bryan is married to Nicki, and devotes a fair amount of time to their three children Harry (15), Maisie (12) and Tim (8). He is involved with coaching the children's cricket and football and also enjoys football, cycling, and fishing.

Macquarie in the community

Over the last few months, Macquarie Private Wealth has made several donations to New Zealand charities. These included:

- \$18,000 donated to Salvation Army from the profits of Generator Bonds.
- \$18,000 donated to World Vision from the profits of Generator Bonds.
- \$18,000 donated to the RSPCA by the Macquarie Group Foundation.
- \$2,000 donated to Sumner Lifeboat Institution to assist with the funding of a new, purpose built, offshore boat. As shown in the picture, the donation was made by the Christchurch office and is being matched by the Macquarie Group Foundation.
- \$2,000 donated to Lifeline Foundation to assist in building an investment fund that will provide Lifeline with a regular income.

This donation was made by the Christchurch office and will be matched by the Macquarie Group Foundation.

The Macquarie Group Foundation was established in 1984 to work for the betterment of the communities in which Macquarie Group



Heather MacDonald, from Sumner Lifeboat, receiving cheque from Simon Gilroy Macquarie Private Wealth.

operate. In the year to 31st March 2008 it contributed A\$17.3 million to more than 800 community organisations globally with an emphasis on organisations where staff are personally involved.

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**Brad Gordon's new addition.**

Liam Bradley Gordon, born 12th November 2008, 6.34am and weighing a healthy 3.505kg (7lbs 12oz).

After a long wait, Liam was finally born early on Wednesday morning, but not without excitement along the way.

As Brad and his wife, Natalie, rushed to the hospital, Brad put his foot to the floor and was pulled over by the Police on the motorway. They seemed to take forever to get out of their car (and you're not allowed to get out of your car on the motorway), so by the time they finally walked over to the car, Natalie wound down the window and screamed "I'm in labour!" The female officer reacted quickly and said "right, follow me", so she put her lights on and escorted Brad and Natalie along the motorway, through the red lights and waved them through to the hospital.



It was lucky because by the time they arrived at the hospital it was all happening. After getting into the labour unit at 5.50am, Liam was born 44 mins later at 6.34am.

Liam has settled in really well and his big sister Grace is taking good care of him. Fingers crossed it stays that way!



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

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AMP:ASX - AMP Limited The responsible entities of the Diversified Utility and Energy Trust (DUE:ASX), AMPCI Macquarie Infrastructure Management No 1 Limited and AMPCI Macquarie Infrastructure Management No 2 Limited, are 50% owned by the Macquarie Group and 50% by AMP Capital Holdings Limited. The Macquarie Group is a substantial securities holder of Diversified Utility and Energy Trust stapled securities. The Diversified Utility and Energy Trust hold all the ordinary units in POWERS Trust. **CCL:ASX - Coca-Cola Amatil Limited** The Macquarie Group is acting as financial advisor to Coca-Cola Amatil Limited (CCL:ASX) in respect of an incomplete and non-binding proposal from Lion Nathan Limited (LNN:ASX) to acquire CCL by way of a scheme of arrangement as announced 17 November 2008.

ORG:ASX - Origin Energy Limited The Macquarie Group acted as defence advisor to Origin Energy Limited (ORG:ASX) in relation to the takeover offer from BG Group as announced on 30 April and 24 June 2008. The Macquarie Group acted as adviser to Origin Energy Limited (ORG:ASX) in relation to the AGL Energy Limited (AGK:ASX) proposal that was initially disclosed to the ASX on 4 January 2007 and further clarified on 6 February 2007. The Macquarie Group acted as financial adviser to Origin Energy Limited in its bid for Sun Retail and joint lead manager and joint underwriter to the placement by Origin Energy Limited as announced on 27 November 2006. **QBE - QBE Insurance Group Limited** The Macquarie Group is acting as Joint Lead Manager and Underwriter to QBE Insurance Group (QBE:ASX) in respect of its institutional share placement as announced 26 November 2008. The Macquarie Group acted as financial adviser to QBE in relation to the offer by QBE for IAG as announced on 15 April 2008.

RIO:ASX - Rio Tinto Limited The Macquarie Group is acting 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. **TLS:ASX - Telstra Corporation Limited** The Macquarie Group is acting as financial advisor to Telstra in its bid to build a National Broadband Network for Australia as announced 20 June 2008. **TTS:ASX - Tatts Group Limited** The Macquarie Group acted as financial adviser and 50% Co-Investor to European Gaming Limited for the acquisition of Talarium Plc as announced on 22 November 2006. **WBC:ASX - Westpac Banking Corporation** The Macquarie Group is acting as Joint Lead Manager and Joint Bookrunner in relation to the Stapled Preferred Securities offering by Westpac Banking Corporation as announced on 26 June 2008. The Macquarie Group acted as Joint Lead Manager to the offer of units in Westpac TPS by Westpac Funds Management Limited, a wholly owned subsidiary of Westpac Banking Corporation (WBC:ASX) as announced 19 May 2006.

The Macquarie Group is acting as Joint Lead Manager in relation to the IPO of BT Investment Management Ltd as announced on 30 October 2007.

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@ mpwnz@macquarie.com

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