

# IN PRIVATE

NEWSLETTER AUTUMN 2009  
NEW ZEALAND EDITION



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## Setting the Standard

IN THIS ISSUE OF IN PRIVATE, WE'VE MADE SOME CHANGES IN RESPONSE TO FEEDBACK YOU GAVE US IN THE CLIENT SURVEY. WE HOPE THEY MAKE IN PRIVATE MORE RELEVANT AND USEFUL TO YOU.

Our aim is to set new standards in service, and in this issue you can also read about some other improvements we are making. We appreciate your feedback and encourage you to continue to let us know about opportunities to better meet your needs.

**JOHN BODY**  
Managing Director, Private Bank

## Rates of Exchange

ARE THE ECONOMISTS WRONG ABOUT THE NEW ZEALAND DOLLAR?

As a long time watcher of the NZD and a market professional for 20 years, it always concerns me when the economists are in consensus about the direction of the New Zealand dollar – and when that consensus is down. We all know the story... in the current deleveraging process, countries with current account deficits (like New Zealand) are most impacted. Throw in a global recession which slows trade and tourism, and you have a compelling case for weakness. However, I would like to offer a case in defence for the currency with no friends.

Firstly, discount the yield story – at least the old yield story. The NZD yield story is less about the cash rate and more about the government bonds, and these trade at a healthy spread to global bonds. So even if the cash rate goes to 2% (which it should), don't expect a lower NZD.

Secondly, don't forget the food story, NZ is still a farm to Asia, which remains a compelling long term growth story.

Forget protectionism – Asia will not become a protein producer.

Thirdly, capital stability is the new risk aversion. In a world where the financial system is under pressure and getting money back is on investors minds, don't rule out the importance of the strength of New Zealand's domestic banking system as a magnet for capital.

A strong banking system means:

1. there is less likelihood of a call on the contingent exposure of governments through the guarantee schemes, which is a positive to sovereign risk and
2. banks will lend and fuel growth as we emerge from the cycle.

Don't get me wrong – the economists' arguments are persuasive. But it's not a one way bet. Maybe it's time to change the thinking from where to sell the NZD, to where do I buy it. **IN PRIVATE**

**John Body**  
Managing Director, Private Bank

# The Year Ahead

**2009 WILL BE ANOTHER DIFFICULT YEAR FOR MANY NEW ZEALAND HOUSEHOLDS AND BUSINESSES.**

The global liquidity crisis of 2008 has eased following initiatives such as Government Guarantees for wholesale and retail deposits. However debt and equity funding for Banks globally is difficult to attract, especially term debt, and it is expensive.

Consequently New Zealand and Australian Banks, which are considered to be amongst the soundest in the world, still need to maintain close control over their balance sheets.

The fall in the overnight cash rate will not immediately translate into lower interest rates for all borrowers due to the relatively high percentage of expensive foreign debt in New Zealand Bank Balance Sheets. Additionally, many borrowers hedged their interest rate risk through swaps and fixed rate loans which cannot be broken without incurring a market to market cost.

It will be a year of tight liquidity with interest rates easing. Tight liquidity doesn't mean Banks aren't open for business, we certainly are. However, demand for new lending has fallen dramatically. This isn't a surprise for a number of reasons.

Firstly, an overheated housing market has resulted in an inevitable price adjustment. Consequently house prices are falling and equity is being eroded. For many, the thought of additional borrowing for the new house, car, boat or holiday is a thing of the past. And for those with funds to invest, the prospect of a cheaper price tomorrow has them biding their time waiting for a better deal.

Secondly, domestic consumption is contracting and businesses of all types are feeling the pinch. In response, we are seeing margins sacrificed to maintain sales volumes. Businesses are watching costs carefully, with many either laying off staff or reducing their working hours. The export sector, especially Rural, is experiencing falling commodity prices and reduced demand.

At ANZ National we are experiencing an increasing number of overdue payments across all products and customer groups. The recession is definitely biting.

We take our dominant market share bank responsibilities very seriously. We are actively seeking to help good customers through difficult times if at all possible.

On the positive side we should take heart from having a very well capitalised and profitable banking sector, sound sovereign fiscal position, falling interest and exchange rates, prospective tax cuts and potential for infrastructure expenditure to help ease recessionary conditions.

Deleveraging household, business and rural balance sheets will take some time and remind us, for the years ahead, of the virtues of hard work and living within our means as we earn and save our way out of this recession and build a sustainable economic future. **IN PRIVATE**

**Richard Wilks**  
Chief Risk Officer, ANZ National Bank

## Sharks and the economics of modern art

**IN 2004 A DEAD SHARK ENCASED IN FORMALDEHYDE – A WORK BY LEADING BRITISH ARTIST DAMIEN HIRST – WAS SOLD TO AN INVESTMENT BANKER FOR \$US12 MILLION. THE PURCHASE WAS THE SUBJECT OF A BOOK CALLED THE \$12 MILLION STUFFED SHARK, WHICH SPARKED A WIDE-RANGING, ONGOING AND OFTEN HEATED DEBATE ABOUT THE ECONOMICS OF ART AND THE POWER OF BRANDING.**

The author, Don Thompson (Emeritus Professor of Economics at York University Toronto) will be in New Zealand on Friday 1 May to give the Keynote Lecture at the Auckland Art Fair. The lecture, *Branding lessons from the World of Contemporary Art*, is presented by ANZ Private Bank.

We are proud to once again be a major sponsor of the Auckland Art Fair, which provides an important showcase for contemporary New Zealand art. The biennial event features 40 solo and curated exhibitions from leading New Zealand and Australian galleries. All works are for sale. The programme also includes daily public panel discussions from local and international art commentators, guided tours and talks by the artists.

Our sponsorship of the Auckland Art Fair (held at Viaduct Harbour from 1-3 May) is part of ANZ's long-standing commitment to supporting New Zealand art and artists. Another important contribution is our collection of contemporary New Zealand art. A committee chaired by Chief Executive, Graham Hodges, oversees the collection, purchasing a diverse range of media (including painting, photography, sculpture and installations) by artists from every region of the country. The original artwork is displayed in public areas so both our customers and staff can see and enjoy it.

Many Private Bank clients share our commitment to supporting New Zealand art. If you would like more information about the Auckland Art Fair or the Keynote Lecture from Professor Don Thompson, please contact your Private Banker. **IN PRIVATE**

To find out more visit:  
[www.aucklandartfair.co.nz](http://www.aucklandartfair.co.nz)



# Keeping up with the issues

## NEW INVESTMENT OPPORTUNITIES

ONE OF THE MAJOR CONSEQUENCES OF THE CURRENT FINANCIAL CRISIS HAS BEEN A SIGNIFICANT REDUCTION IN THE AVAILABILITY OF CREDIT. AT THE SAME TIME, BUSINESSES AND OTHER ORGANISATIONS SUCH AS LOCAL BODIES STILL NEED TO RAISE MONEY TO FINANCE THEIR OPERATIONS AND IN THE CASE OF BUSINESSES, FUND GROWTH.

With traditional sources of credit less freely available, those organisations are increasingly seeking to raise capital from the market. Two recent examples are the bond issues from Fonterra and Auckland City Council.

Over the next few months we can expect to see more Corporate Issues come to market. Some of these will present good opportunities to invest

in quality bond issues from strong, well-managed organisations.

ANZ Private Bank's position and independence means we can provide you with good access to these opportunities. In the current environment we maintain a strong focus on high quality bonds and we will continue to proactively keep you up to date with information on new issues that may be appropriate for your situation and objectives.

As markets develop, we are also actively monitoring opportunities in equity products.

We are often presented with opportunities through the depth of our relationships in financial markets. The recently launched Pohutukawa II Private Equity Fund is one example. At the end of last year we held presentations about the Fund, giving you an early opportunity to find out more.



We look forward to continuing to keep you up to date on investment opportunities in the current environment. In the meantime, if you would like more information or would like to discuss your portfolio, please contact your Private Banker. **IN PRIVATE**

# Getting the best from the Government Guarantee Scheme

THE CROWN RETAIL DEPOSIT GUARANTEE SCHEME WAS INTRODUCED ON 12 OCTOBER 2008 AS A RESPONSE TO THE TURMOIL IN GLOBAL FINANCIAL MARKETS. IT IS ONE OF A RANGE OF INITIATIVES BY POLICY MAKERS TO PROVIDE CONFIDENCE TO INVESTORS.

In summary, this is how the scheme works:

- If you have a deposit with an approved institution, the New Zealand Government guarantees to repay your deposit (and any interest earned) if the institution gets into difficulty and defaults.
- The guarantee is capped at \$1 million per investor, per approved institution.
- Financial institutions including New Zealand registered banks, building societies, credit unions and deposit-taking finance companies can apply to join the scheme.
- The Guarantee applies for two years until 12 October 2010.

Our parent company, ANZ National Bank, is an approved institution under the scheme.

ANZ Private Bank has assisted clients to maximise their use of government guaranteed investments in a number of ways, particularly where they have in excess of \$1 million to invest.

For example, by structuring investments through a range of different entities such as family trusts, clients can comply with the cap on individual investments – without the inconvenience of managing multiple investments with different institutions.

We have also helped clients achieve diversification by creating a portfolio of government guaranteed investments from different institutions. This has allowed them to spread their exposure, comply with the cap on individual investments and retain the advantages of having all their investments managed through a single banking relationship.

The New Zealand scheme is similar to schemes introduced in other countries such as Australia. We have also assisted clients with Foreign Currency Accounts to take advantage of government guarantees in other countries.

Private Bank Head of Investments, Guy Fisher, says while the scheme is important in terms of rebuilding investor

confidence, it does not fundamentally alter Private Bank's investment approach.

"Our focus has always been on high quality issues that offer an acceptable balance of risk and return and that has not changed. The underlying quality of the investment remains the key factor in our assessment of any opportunity."

"From an individual investor's perspective," says Fisher, "it's essential to maintain a long-term view of your investment objectives and structure your portfolio accordingly. For example in a well-structured, long-term diversified portfolio, introducing a short-term focus on government guaranteed deposits could have the effect of 'skewing' the portfolio in a way that dilutes focus on more enduring goals."

Every client's situation is different. If you would like more information about the government guarantee scheme or how we can assist you to take advantage of it, contact your Private Banker. **IN PRIVATE**

# Improving our service

LAST YEAR'S SURVEY OF PRIVATE BANKING CLIENTS WAS AN EXCELLENT OPPORTUNITY FOR US TO BETTER UNDERSTAND YOUR NEEDS AND PRIORITIES. IN THIS ISSUE OF IN PRIVATE WE REPORT ON SOME OF THE INITIATIVES WE ARE UNDERTAKING TO IMPROVE OUR SERVICE TO YOU.

## Investments Online

One of the main requests from the survey was the ability for you to view your investment portfolios online. In response, we're pleased to advise that we are developing a new internet-based system for Private Banking clients called **Investments Online**.

*Investments Online* will provide timely, secure access to portfolio information. You will be able to view recent positions for your investment portfolios and cash ledger. While the existing printed reports will continue to be available, the service will allow you to review the status of your portfolio sooner and at your leisure.

*Investments Online* is currently in the latter stages of development. Our aim is to introduce the service around the middle of this year, with additional functionality and enhancements to be introduced over time. If you would like to know more about *Investments Online* in the meantime, please contact your Private Banker.

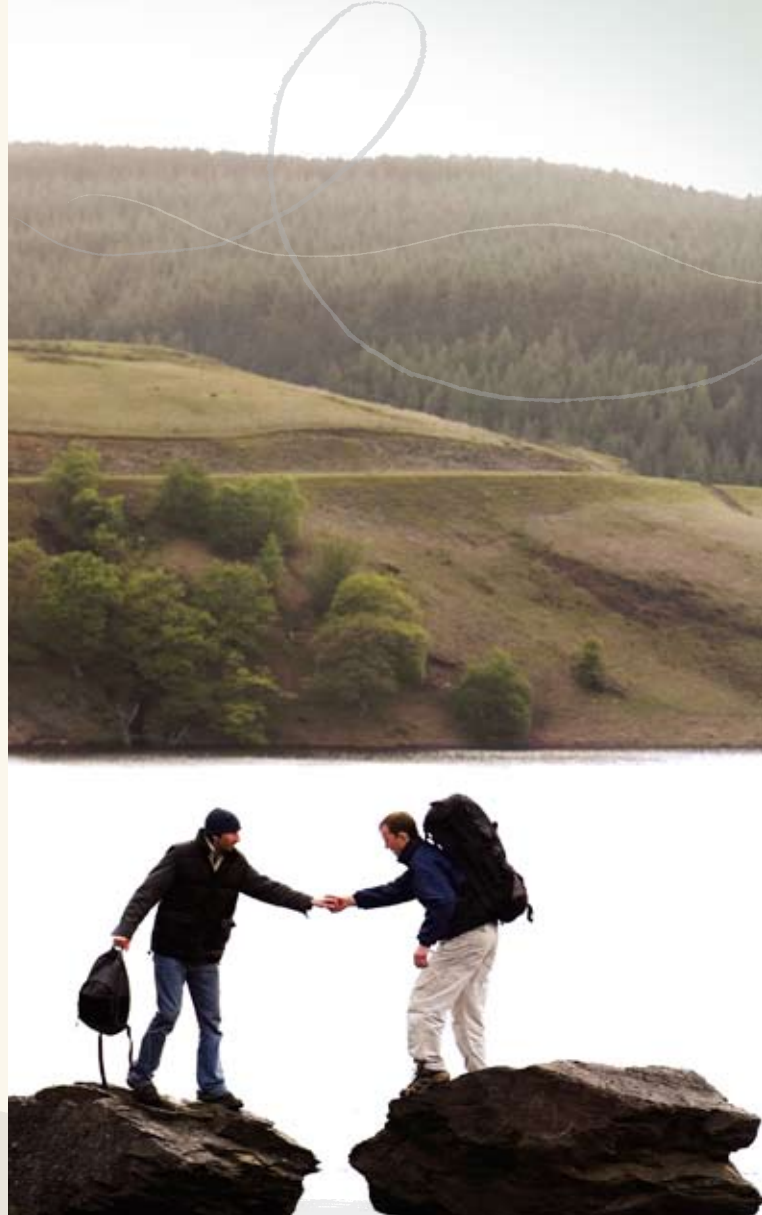
## Seminars

We received pleasing feedback from you on our investment seminars and presentations. As a result, we have expanded our seminar schedule for this year.

The seminars will provide you with an opportunity to meet and hear directly from some of Private Bank's most senior people, including Chief Investment Officer, Kevin Armstrong, and Chief Economist, Cameron Bagrie. This year's programme includes a range of investment and economic topics and will be held at a range of venues around the country. If you would like to know more, please contact your Private Banker.

## Tax reporting

The enhancements we made to our investment portfolio tax reporting last year were very well received, with both clients and accountants noting that the new reports made it easier to comply with the new tax rules for PIEs (Portfolio Investment Entities) and overseas investments. Simplified reporting is one of the advantages of having your investments with Private Bank, and we continue to look for opportunities to streamline and improve our service. As a result, you can expect to see some further small enhancements this year. Your Private Banker can provide more information. **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 [Evelyne.Matheny@anznational.co.nz](mailto:Evelyne.Matheny@anznational.co.nz)

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