

IN PRIVATE

NEWSLETTER AUTUMN 2010
NEW ZEALAND EDITION

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WELCOME TO THE AUTUMN EDITION OF IN PRIVATE.

As autumn approaches it seems appropriate that talk of “green shoots” is now being replaced with a belief in a

more matured recovery. This month we have seen equity markets reach new post crisis highs.

However, while we continue to believe the global economy will strengthen we favour a muted recovery, as both consumers and companies deleverage and authorities withdraw both fiscal and monetary stimulus. For New Zealand, the problems are amplified by our low savings rates and a currency that is linked to the resource-driven Australian dollar. This year's budget is likely to require a careful balancing act.

As investors we are more cautious than 12 months ago, as we believe markets have already priced in a large part of the recovery. Further gains for sharemarkets are likely to be harder won, especially with increased competition from higher yields available in the sovereign and corporate debt markets.

After the volatility of the last two years 2010, is playing out as a more normal year. Well constructed and diversified portfolios will once again be the key to success.

JOHN BODY

Managing Director, Private Bank

Investing in the rural sector – the outlook is positive

We continue to be positive about the medium-term prospects for the agricultural sector. Like many other sectors, farming has experienced increased volatility in recent times.

However, the Dairy industry in particular has shown pleasing resilience, with the forecast payout rising from \$4.55 to over \$6. With farmers already managing their costs tightly this should bolster returns which will help with cash flow, allow farmers to repay losses from last year and shore up farm balance sheets for the future.

The outlook for sheep and beef is steady. While structural and cost issues remain, the meat industry continues to produce good results. The fruit industry has had mixed results –kiwifruit has done well while the apple and wine industries have had challenging years.

Farmers are used to volatility and have responded by restructuring their businesses accordingly and reducing debt levels. The focus for the future will be very much on improvements in productivity gains rather than increasing

land values. Improving productivity has always been a strength of New Zealand farmers, and we continue to be positive about their ability to create and exploit new opportunities.

For those looking to invest in the agricultural sector, one increasingly popular vehicle is Equity Partnerships. Equity Partnerships offer the opportunity for a more direct involvement than listed equities or managed funds. They allow investors to pool their capital to create a new farming business - and share both risk and rewards.

Our rural team has facilitated the formation of many successful Equity Partnerships and is connected to new opportunities coming to the market, both in New Zealand and overseas.

If you would like more information about Equity Partnerships or other investment opportunities in the rural sector, talk to your Private Banker.

Charlie Graham

Managing Director, Rural Banking

Best Private Bank

YOU MAY HAVE SEEN IN MEDIA REPORTS RECENTLY THAT ANZ PRIVATE BANK WAS NAMED AS BEST PRIVATE BANK IN NEW ZEALAND IN THE 2010 EUROMONEY PRIVATE BANKING AND WEALTH MANAGEMENT SURVEY. IT'S PLEASING TO BE RECOGNISED IN THIS WAY BY ONE OF THE WORLD'S LEADING FINANCIAL JOURNALS.

It is a great privilege for us to win this award. It is not only a tribute to the team's dedication to excellence and to their commitment to create truly bespoke wealth management solutions, but is also an acknowledgement to you, our clients. On behalf of the ANZ Private Bank team I'd like to thank you for choosing to work with us and trusting us to help you manage your wealth. While our ultimate measure

of success is how well we have helped you achieve your financial goals, this award gives us confidence that our approach is working well.

JOHN BODY
Managing Director, Private Bank

ABOUT THE AWARD

The Euromoney Private Banking and Wealth Management survey is a peer review of global private banking services involving over 15,000 wealth management professionals worldwide. It rates private banks against a range of criteria including client service, assets under management, profitability, privacy and the products and services offered. ANZ Private Bank was considered to rate highest against these criteria and to have the best reputation in the New Zealand market.

NZD/AUD... Value or not?

CURRENCY MARKETS LIKE ALL THE OTHER MARKETS WE OBSERVE AND INVEST IN OFTEN THROW OUT INTERESTING SITUATIONS AND THE CURRENT RATE IN THE NZD/AUD CROSS IS ONE THAT HAS CAUGHT MY EYE.

The cross rate has only been at its current level of .7730 for 6% of the time in the last 10 years and in fact has spent the majority of the time above .8500. Recapping the story, NZ has been in recession for 2 years, is an indebted nation and productivity lags Australia. Across the Tasman recession was avoided, the central bank is raising rates and digging holes in the ground and sending exports to Asia has been very lucrative. I accept all these arguments but one of our core philosophies at ANZ Private Bank is that markets are forward looking and will quickly discount yesterday's news.

So what are the prospects for the cross to go back to .8500, broadly its 10 year average? I see several forces potentially at play.



Firstly, it is important not to extrapolate the last two years growth difference. I have invested through three significant NZ recessions and they have always been followed by periods of long recoveries with the central bank being forced to take interest rates higher than anyone had imagined. Remember it was only two years ago capacity utilisation was in the 90's, firms were talking of the "war for talent" and in June 2008 the cash rate was 8.25%. You can easily build a case where the RBA stops raising rates just as the RBNZ starts raising rates and when the market focuses on that the cross can correct rapidly.

Secondly, our business cycles are increasingly linked through cross ownership in all sectors, and together with regulatory convergence, it is hard to

see that at .7730 our economic fortunes can diverge that much to suggest there is not some value in the currency around these levels.

Finally, there is potential for the relative commodity price cycles to turn with industrial commodities vulnerable to a slower China and agricultural protein-based commodities on an elongated upswing as Asia becomes more affluent over the medium term.

We have an eye on this cross and can't help but feel there is value and maybe it's time to bring a few of those Australian dollars back home.

JOHN BODY
Managing Director, Private Bank

Spotlight on everyday banking

IN EACH ISSUE OF IN PRIVATE WE FOCUS ON ONE PART OF OUR HOLISTIC OFFERING. IN THIS ISSUE WE LOOK AT EVERYDAY BANKING.

Your day to day banking should be fast, convenient and straightforward. As a Private Bank client you get that – and much more.

We offer a full range of personal banking services including current accounts, term deposits, credit cards, savings and call accounts, PIEs, foreign currency accounts and automatic payments. The real value goes well beyond your day to day needs, according to Senior Private Banker, Neil Beattie.

“The Private Bank difference is in the way we integrate your day to day banking with all of your financial needs,” says Neil. “Rather than having to deal with different providers for your everyday accounts, investments, lending and insurance, we bring all of these things together –this offers real benefits for our clients.”

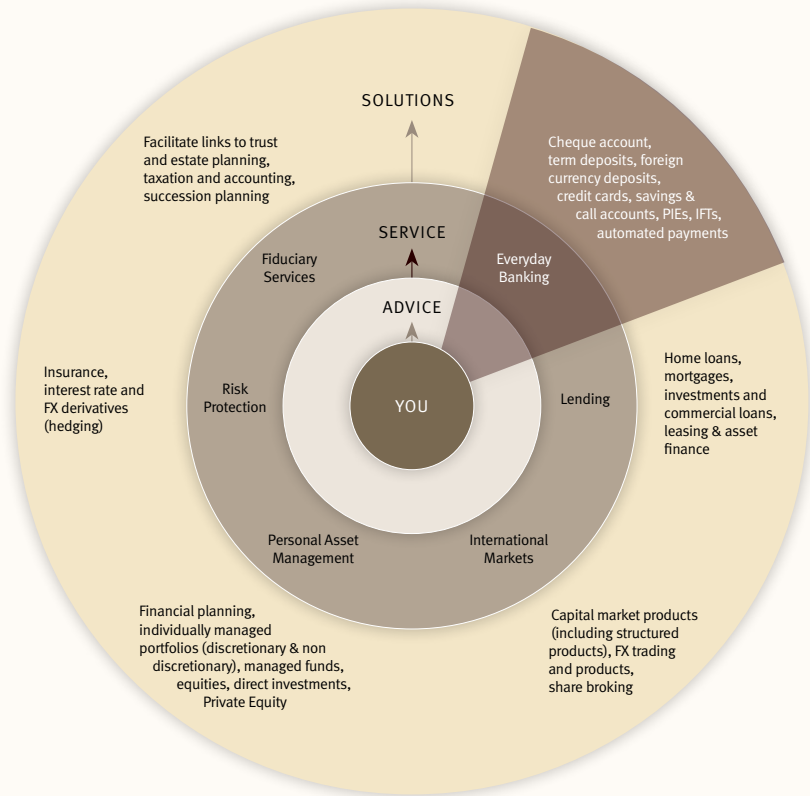
Your relationship with your Private Banker is the key. Besides the obvious advantage of only having to deal with one person, they have a ‘big picture’ view across your financial situation – which means they can identify potential opportunities and risks.

“For example,” says Neil, “if you are accumulating significant amounts of money in your day to day accounts, your Private Banker will proactively contact you and suggest ways of investing it that are appropriate for your particular situation and what you plan to do with the cash.

“Or, you may need to withdraw funds for a major purchase like a new car, then your Private Banker can recommend the best way to structure that to minimise the impact on your interest-earning deposits.”

“At the end of the day, the integration of your day to day banking with the rest of your finances is what really sets ANZ Private Bank apart,” says Neil. “It’s our ability to help you across the entire spectrum of your financial needs, to understand your total situation and advise you accordingly, that provides real value.”

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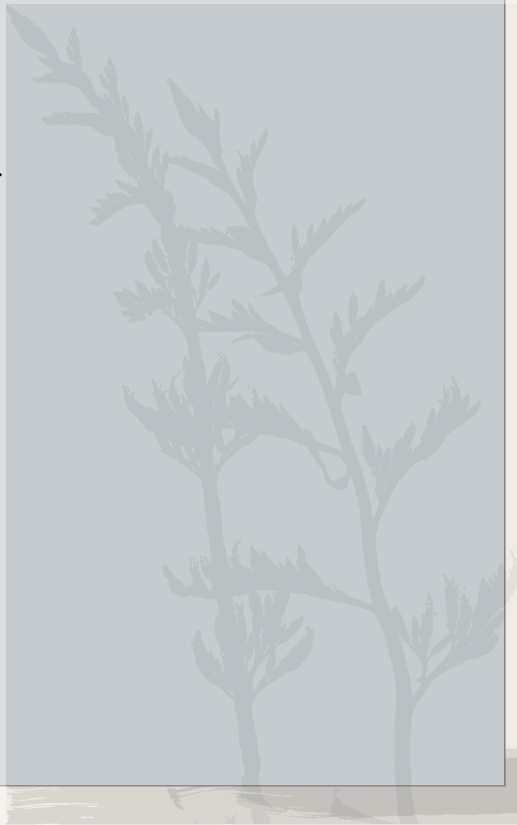
Our Holistic Offer

MAKING YOUR EVERYDAY BANKING MORE CONVENIENT

Did you know you can do your everyday banking whenever and wherever you like? With our internet banking service you can check your account balances, transfer funds, pay bills and much more whenever you want to, wherever you are in the world. There’s no waiting – you can manage your day to day finances and banking quickly and efficiently.

Internet Banking is simple and straightforward to use – all you need is a computer with an internet connection. With leading edge security systems and our Internet Banking Guarantee, it’s also very safe.

If you’d like to know more or to register for Internet Banking, contact your Private Banker.



International Bonds; a new option for our investors

IF YOUR PORTFOLIO INCLUDES FIXED INTEREST INVESTMENTS, YOU SHOULD REALLY BE LOOKING AT INTERNATIONAL BONDS.

“The case for this kind of investment is compelling, especially given the current international financial situation,” says Guy Fisher, Head of Investments for Private Bank. “Diversifying offshore gives you the opportunity to reduce the overall risk of a fixed interest portfolio, while at the same time increasing your portfolio returns.”

Historically, international bonds deliver better returns in the long run, provided that they're hedged back to New Zealand dollars. They provide options for longer duration, can be bought at more competitive prices and offer you diversification across countries and industries.

In New Zealand there are only 28 corporate bond issuers whose bonds receive a single-A or better credit rating. Bank issued debt makes up nearly two-thirds of the total volume.

“Within these constraints it can be a challenge to achieve good diversification in New Zealand alone,” says Peter Jones, Head of Fixed Interest Investments.

“The international bond market gives you access to many more industry sectors and types of bond issuers.”

In light of all these clear advantages, Private Bank set about finding the most suitable partner to provide a vehicle through which our clients can invest in international bonds. It's the first time we are offering such a facility.

Our choice fell on Russell Investment Management, a company with solid backing and a strong track record. Through their Russell Global Bond Fund, you gain access to more than 13,000 securities worldwide.

The Russell Global Bond Fund operates as a multi-manager, selecting a range of fund managers to actively control a set portion of the total fund. Custody of assets stays with Russell's custodian, the highly regarded State Street.

“This model gives you the benefit of tapping into the expertise of a whole range of managers, each with their own area of specialisation. At the same time, the scale of the umbrella organisation ensures good liquidity,” says Peter.

Investing in international bonds via the Russell Global Bond Fund is available to all Private Bank custody clients. There's no entry fee and annual management fees

on the fund total 46 basis points. The fund pays quarterly distributions. A *Product Disclosure Statement* is available, free of charge from your Private Banker.

If you would like to investigate this new option, please do discuss it with your Private Banker.

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Russell Investment Management Limited is the issuer of the Russell Global Bond Fund. Units in the Russell Global Bond Fund do not represent deposits with or other liabilities of ANZ National Bank Limited. An investment in the Russell Global Bond Fund is subject to investment risk, including possible delays in repayment and loss of income and principal invested. No member of the ANZ National Bank Limited group or any other persons guarantees Russell Global Bond Fund or the capital value or the performance of the products issued by them.

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@anz.com

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A copy of the Bank's, John Body's, Neil Beattie's, Guy Fisher's, Charlie Graham's, Peter Jones' 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.