

IN PRIVATE

NEWSLETTER SPRING 2009
NEW ZEALAND EDITION

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WELCOME TO THE SPRING EDITION OF IN PRIVATE.

The improvement in the weather continues to be reflected in global economies and markets, led by the significant rally in equities through the first half of the year. Though the New Zealand economy still has some significant hurdles ahead, I believe the story remains one of recovery, albeit fragile.

I would like to thank all of you who took the time to participate in our annual Client Survey. Your feedback is essential to us as we continue to evolve our offering and our service to better meet your needs. The results are now being correlated and we will be sharing these with you in our December edition.

JOHN BODY

Managing Director, Private Bank

It's not perfect but it's a recovery!

With the rapid rise in confidence gauges, strong equity markets and signs of life in the property market, spring is definitely in the air both from an economic and a meteorological sense. The consensus view is that the recovery won't last and because it is based on low interest rates boosting a housing and partially consumer led recovery it is therefore unsustainable. The strength of the NZD, the reliance on fiscal spending and current account deficit add further weight to the unsustainable story.

I have more faith in this recovery. As a nation we are resilient in our capacity to borrow and our desire to spend. I have no doubt that, as the fear of mass unemployment subsides, household balance sheets will start to expand again adding momentum and taking away the fragility of the recovery. Just as consumer and business behaviour has driven the recession, it can fuel the rebound. It is a recovery, just not the export and tourist led one we wanted, but the "recovery we had to have".

Let's embrace the recovery after six quarters in recession and leave the tinkering with the tax system or any other measures to target asset price inflation until we are in a growth period. Similarly, we need to rebalance away from debt and spending again - let's do it in a growing economy. Finally, the RBNZ needs to keep doing its part with its "low interest rates for longer" mantra as this is ultimately how we get a lower currency and start the rebalancing process.

IN PRIVATE

Commercial Property – Back to Basics

NEW ZEALANDERS HAVE TRADITIONALLY HAD A LOVE AFFAIR WITH PROPERTY INVESTMENT.

But in the wake of the credit crunch and its aftermath, what is the state of the commercial property market? According to ANZ National Bank's General Manager Property Finance, Steve Mulligan, the key is focussing on the fundamentals.

"Six to nine months ago the perception of expert market commentators was one of woe for the industry," he says. "There was also the perception that banks had materially changed their lending policies on property investments.

"What has actually happened is that investors – and banks – are taking a prudent response to the changed economic environment.

"In any acquisition or finance assessment, a mix of objective and subjective reasoning applies. In buoyant market and economic conditions the subjective conclusions, where the heart can rule the head, may hold ultimate sway. But in downturn cycles, objective reasoning (such as can the tenant actually pay the rent) quite rightly dominates. That's what's happening at the moment – and it's a positive development for the industry.

"The fundamentals of property investment have not changed. A well located property with good tenants is a good buy in any market cycle. But it shouldn't be confused with perceptions that the market has turned the corner.

"In terms of the current market, we are seeing the emergence of buyers at various price points. In the main they have assessed the desired property on its individual merits rather than seeking to acquire on the basis that the overall market will rise and justify their decision.

"They are going back to the basics – assessing the building itself and its location, the price, the quality of plant and fittings, what can be done to improve the asset and its cash flow, and careful review of the lease agreements, the likelihood of renewals, and how well the tenant is managing in the current economic environment.

"With any investment opportunity you should make sure all the basics are in place and the investment presents a compelling proposition on its own merits – and that's as true in the commercial property market as it is in any other market," says Steve Mulligan.

If you would like to have exposure to the commercial property market as part of a balanced portfolio, be that through direct or indirect investment, please talk to us to see how we can help.

IN PRIVATE



Taking another look at KiwiSaver

MANY HIGH INCOME EARNERS TEND TO THINK THAT KIWISAVER IS NOT RELEVANT TO THEIR SITUATION – IF YOU ARE UNDER 65 IT MAY BE WORTH ANOTHER LOOK.

If you are a business owner, self-employed or not working, you may be able to enjoy the benefits and incentives of KiwiSaver without having to make compulsory salary contributions.

The Government provides all KiwiSaver members with a tax-free, one-off 'kickstart' incentive of \$1,000 when you open your account. They also match your KiwiSaver contributions with 'tax credits' up to a maximum of \$1,042 each year. Most wage and salary earners who join KiwiSaver must make regular

contributions of 2%, 4% or 8% of their gross salary, which can be a significant amount for higher income earners.

If you are under 65 and don't earn a wage or salary from which PAYE is deducted at source, you may be able to choose how much and how often you contribute to KiwiSaver. If you contribute \$1,042 each year the Government will match this with \$1,042 in member tax credits – essentially matching your contribution. And, of course, you will receive any investment return that your KiwiSaver scheme achieves.

If you are working, the flexibility to choose your contributions to KiwiSaver will depend on your particular situation.

If you'd like to find out more, speak to your Private Banker to see if Kiwisaver is right for you.

IN PRIVATE

Spotlight on Business Protection

ANY BUSINESS OWNER KNOWS THAT IDENTIFYING AND MANAGING YOUR BUSINESS RISKS IS ESSENTIAL.

But while most businesses protect assets like premises, plant and vehicles, many have no protection for their most valuable assets – the people that keep the business going.

Business Risk Protection is one of the services available to you as an ANZ Private Bank client through our wider organisation. Our Business Risk Advisers have specialist expertise and can help you put plans in place to ensure that if something happens to you, a co-owner or a key staff member, your business can continue to operate - and provide an income for you and your family.

Head of Business Risk Craig Sudron says if a business owner or key staff member dies or cannot continue working, the repercussions can go way beyond the business itself.

“One of the issues we deal with is what happens if one of the owners of the business dies. Their shares in the business would usually go to their spouse or nominated beneficiaries. However this may not necessarily be the best thing for the business or for the remaining owners, their families and the staff who depend on the business for their standard of living.

“The beneficiaries may have very different ideas about running the business, which can create stress and uncertainty. In extreme cases, beneficiaries seeking to extract the value of their shares could even force the sale of the business at a less than optimal price if the remaining owners are unable to buy them out.

“A better solution may be to have a succession plan in place. Typically this would include an agreement that the co-owners are able to buy the deceased partner’s share of the business, with life insurance cover available to provide funding. We can help clients set up and execute these kinds of arrangements.”

It is not just the loss of an owner that needs to be considered. Many businesses have key employees who have essential skills or manage important relationships. The loss of these key staff can have a large impact on your business and its profitability.

One option for managing that risk is to take out key person protection. Key person protection can provide funding to cover

any loss of revenue as a result, and help minimise the impact so your business can keep operating.

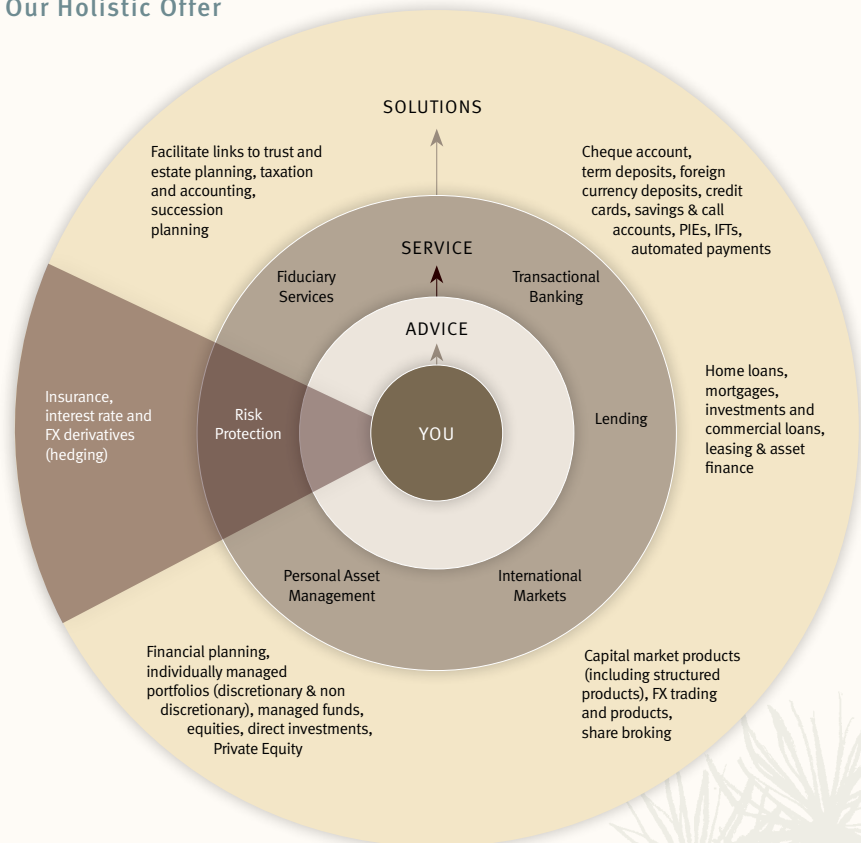
“From our experience, risk management is something that is often overlooked or not well understood. Yet the consequences can be disastrous for both your business and your personal financial position,” says Craig Sudron.

“Because everyone’s situation is different, our approach is simply to sit down with you to help you understand what your business and personal risks are. Then, we discuss some of the options for managing those risks. We can also help put together a plan to suit your needs and situation.”

If you would like to find out more about managing your business and personal risks, contact your Private Banker.

IN PRIVATE

Our Holistic Offer



Update on Investments Online

SINCE THE LAUNCH OF INVESTMENTS ONLINE IN JUNE MANY OF YOU HAVE TAKEN THE OPPORTUNITY TO REGISTER AND TRY OUT THIS NEW SERVICE.

Some of the key feedback that we have received from clients who have used the service is that they have found it easy to access and navigate and enjoy being able to access their portfolio information when they choose to.

Currently the Portfolio Position and Cash Ledger reports are updated monthly.

In response to your feedback, we are now working towards providing weekly updates.

If you would like to register or have any questions about whether Investments Online is right for you, please contact your Private Banker.

IN PRIVATE

Independent voice on Investment

ONE OF THE THINGS THAT SET US APART FROM OUR COMPETITORS IS OUR APPROACH TO INVESTMENT.

The Regional Investment Committee sets the overarching macro view and investment strategy. Its members include senior investment and market experts in Private Banking and well respected independent experts from Australia and New Zealand.

We will be profiling some of the key members of the Regional Investment Committee and in this issue we would like to introduce you to Mike Gibbs-Harris, one of two independent members of the committee. Mike's role is to bring an external perspective on global markets to the table – and it is a role he is extremely well qualified to fulfil.

Welsh by birth, Mike holds an M.A. from Oxford University. He worked in senior investment management roles in the UK, USA, Hong Kong and Australia, before coming to New Zealand where he was formerly Director and Chief Investment Officer of Colonial First State (NZ). He then established his own company, MGH Asset Management, which runs an international fund for predominantly offshore high net worth investors. It is now the second largest New Zealand-based actively managed international fund.

Mike's experience and perspective on international markets is an important input to our investment strategy. And while his focus is global, being based in New Zealand provides some significant



advantages. "Thanks to the Internet information is freely available and I also do a lot of travelling to research investments and markets. Being based away from the major global markets means I can avoid having a geographical bias and take a more objective view.

"I think that ability to present an alternative view is a big part of my role in the Regional Investment Committee. There is a lot of noise and emotion in investment markets. It is very important to be able to look past that and take a position that is counter to the prevailing

view when necessary. It can be uncomfortable, but simply following the herd results in mediocre performance."

Independence is a key part of the Private Bank proposition. As an independent consultant, Mike helps ensure that our investment strategy continues to reflect a considered, rigorous process, informed by the highest quality of information and expertise.

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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