

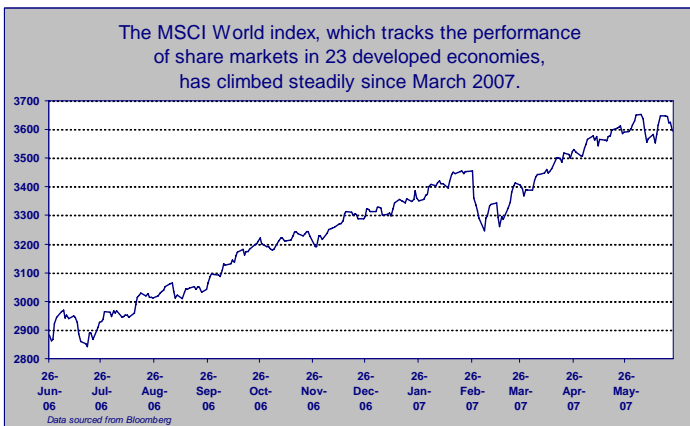
July 2007

"One does not discover new lands without consenting to lose sight of the shore..."

Andre Gide

Global economies continue to perform strongly

Economic fundamentals have remained robust through the past quarter to 30 June 2007 and global growth has continued strongly in all developed economies. This resilience was demonstrated by the consistent performance of the 23 developed economy share markets tracked by the MSCI World index, which finished the quarter up just over 6% in local currency terms.



While the US has recently experienced an upswing in its economic performance, the European and Asian economies (particularly Germany and China) have – to a large degree – been fuelling global growth over the past quarter.

While inflation and interest rate pressures have increased moderately in several developed economies, both remain at low levels historically and continue to provide a positive environment for further growth.

However, towards the end of the quarter credit markets started to react to the forced sell-down of Bear Stearns Asset Management’s highly geared portfolio of sub-prime loans. The outcome has been a series of modest re-pricings of credit assets.

Global equities also show ongoing resilience

In the US, the broad-based S&P500 index recorded strong growth, increasing by nearly 6% over the three months to 30 June 2007.

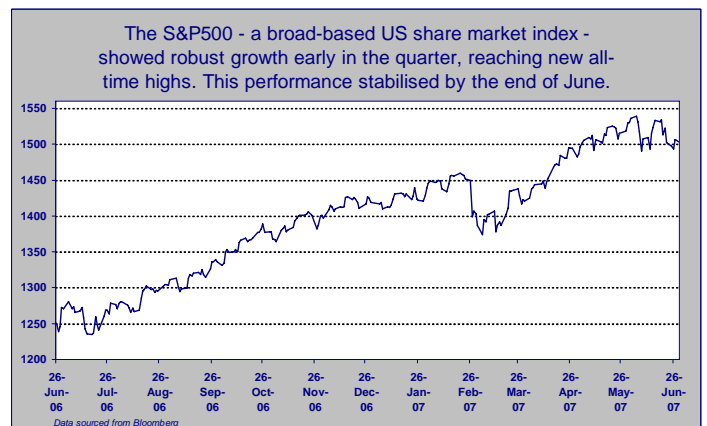
Another positive catalyst for global equity markets has been their relative cheapness compared to other traded markets. This has been attracting private equity funds that have targeted a number of listed companies globally.

A notable target of this burgeoning takeover activity was Australia’s largest retailer Coles Myer, which remains in discussions with Wesfarmers, a major diversified Australian public company with interests in private equity.

Also fuelling this corporate activity has been a range of takeover offers made by other listed corporations, such as UK-based Barclays Bank’s offer to purchase ABN Amro (a Dutch listed bank), and Rio Tinto’s (one of the world’s leading mining and exploration companies) recent offer to purchase Canada-based aluminium producer Alcan for approximately US\$38.1 billion.

While the level of private equity activity is unique to the current market cycle, corporate merger and acquisition activity is reasonably common at this, more mature point in the economic cycle because revenue growth rates in companies tend to slow. Consequently, firms look to maintain earnings growth by acquiring and rationalising other companies in their industry.

Share markets locally and internationally have now surpassed the peak levels of 2000. In contrast to that time, however, substantial economic and earnings growth means that potential exists for continued positive returns.



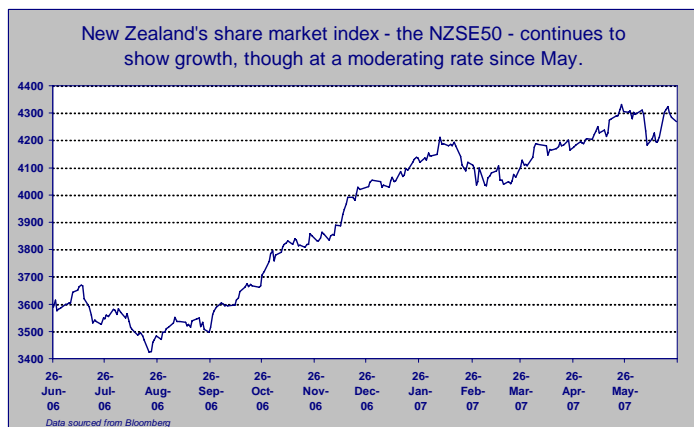
New Zealand equities absorb volatility and stabilise

The New Zealand equity market has continued to perform well through early 2007, with the market climbing back into record

territory of over 4300 points in May/June. This growth followed a short, sharp period of volatility last quarter.

Merger and acquisition activity continues to influence domestic equity prices. The interest expressed in New Zealand's corporate investment opportunities has had an ongoing stimulatory effect on the domestic equities market, despite the increasing impact of the high domestic currency.

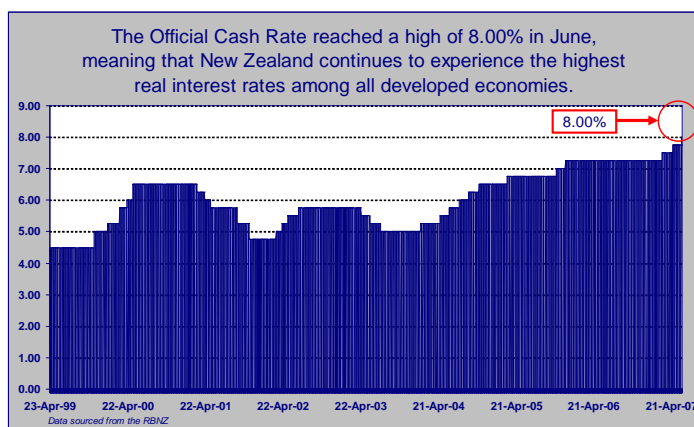
Recent activity in this area includes a major acquisition made by Fletcher Building of US-based Formica Ltd (the world's largest manufacturer of laminates) for approximately US\$700 million.



Inflation continues to put upward pressure on interest rates

The Reserve Bank of New Zealand (RBNZ) again lifted the Official Cash Rate (OCR) in June.

New Zealand's overnight lending rate has now reached a high of 8.00% (as of 7 June 2007), which is also the highest rate among all developed economies. The June hike of 0.25% followed a similar hike in April, at which time the RBNZ noted it was also assessing alternative measures that might support the OCR.



Commentary by the RBNZ, accompanying the most recent hike, indicates that interest rates are likely to remain at or around their current levels for the foreseeable future.

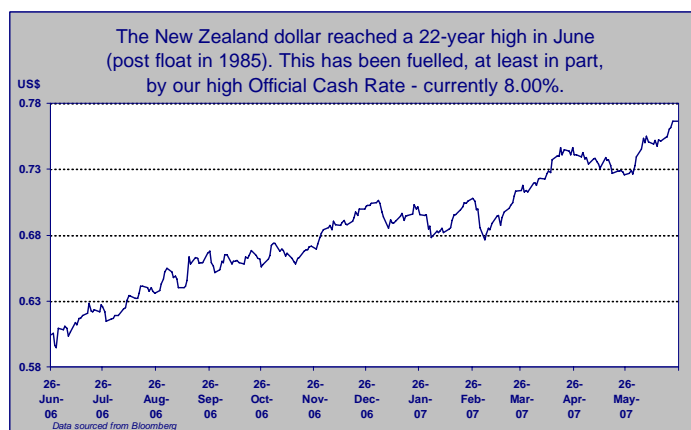
This is because medium-term inflationary pressures remain as consumer spending and demand within the housing market continue to show high levels of resilience. Strong infrastructure spending by the Government has also added to these pressures.

Recent data suggests that elevated consumer spending has contributed to a 1% rise in the Consumers Price Index during the June quarter, which may prompt another 0.25% rise in the OCR over coming months.

The Kiwi rises, impacting exporters and global investments

The New Zealand dollar also appreciated significantly over the period and ended the quarter at a 22-year high, following the currency's float in 1985 from which time it was freely traded.

As noted by the RBNZ in its latest statement, the exchange rate is now at levels that are both exceptional by historical standards and unjustified based on medium-term fundamentals.



Credit market 'indigestion' lingers, affecting valuations

The performance of the international credit market is heavily influenced by the financial performance of domestic and international corporate borrowers.

Though the ability of these companies to pay their debt obligations remains high, a series of revaluations within the wider structured credit market has adversely affected this segment of the international investment market.

In June 2007, the major seller of structured credit in the global credit market was Bear Stearns Asset Management, which holds highly leveraged credit portfolios of sub-prime mortgages.

Because of well-publicised problems with two highly leveraged funds run by this US investment group, many structured credit portfolios around the world are being re-valued, whether they have exposure to distressed sub-prime lending or not.

It is possible that the current 'indigestion' for valuations of credit investments will persist for some time.

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