A NEWCOMER'S PERSPECTIVE ON THE NEW ZEALAND INVESTMENT SCENE

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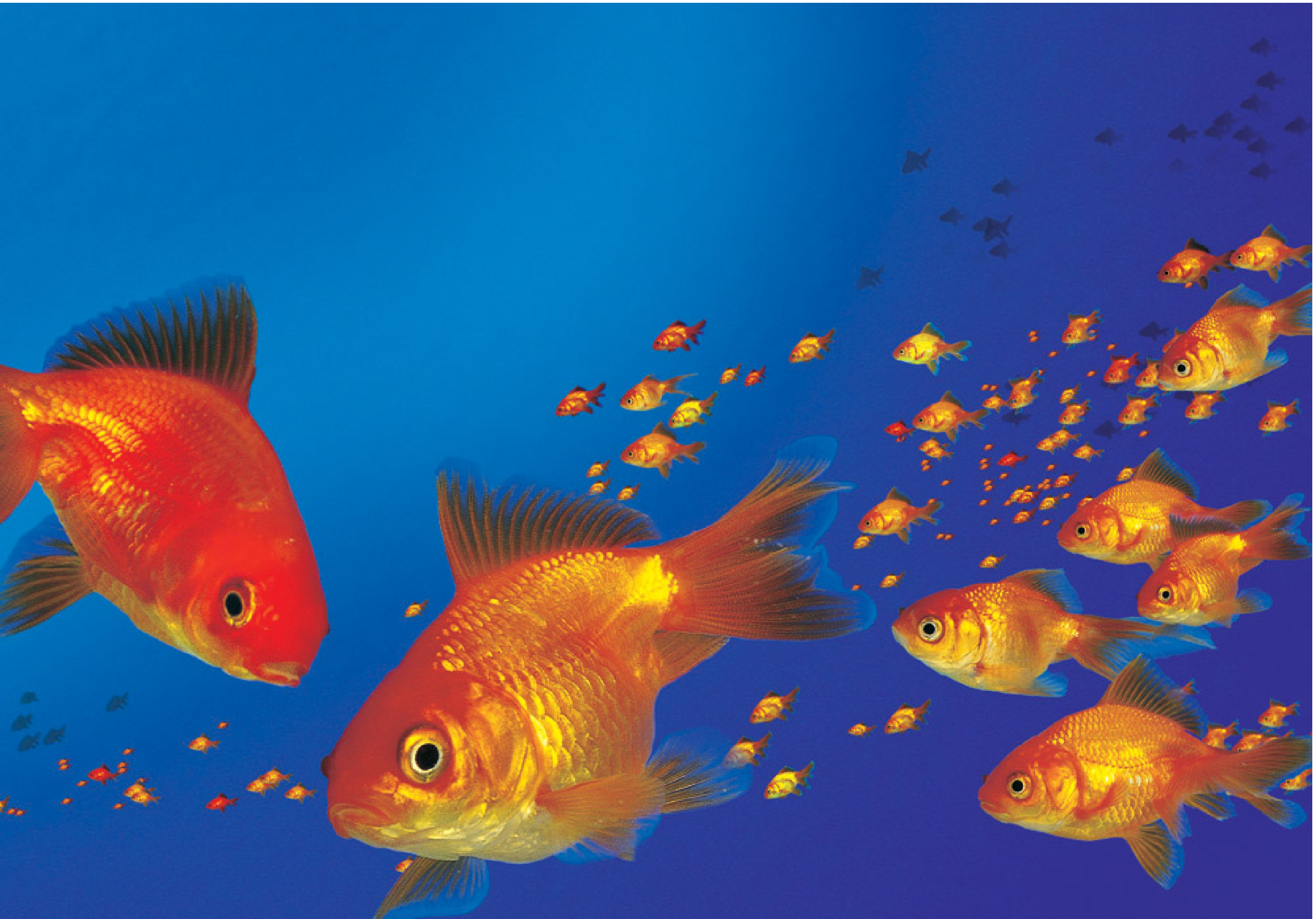

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Rebecca Thomas

Chief Investment Officer

Agenda

- The investment scene – performance, competition, currency, NSX
  - Tax
  - Savings
  - Regulation

Disclaimer: These are my own views not necessarily those of ING NZ Ltd

The Investment Market

- Small – competition, critical mass, fees
- Breadth of capability/focus on specialisation
- Administration/customer service/manufacturing/distribution – outsourcing
- No strong independent FM sector – conflicts of interest
- NZ/Australia with NZSE50 benchmark – risk of hollowing out by Australian small cap managers

Performance Measurement

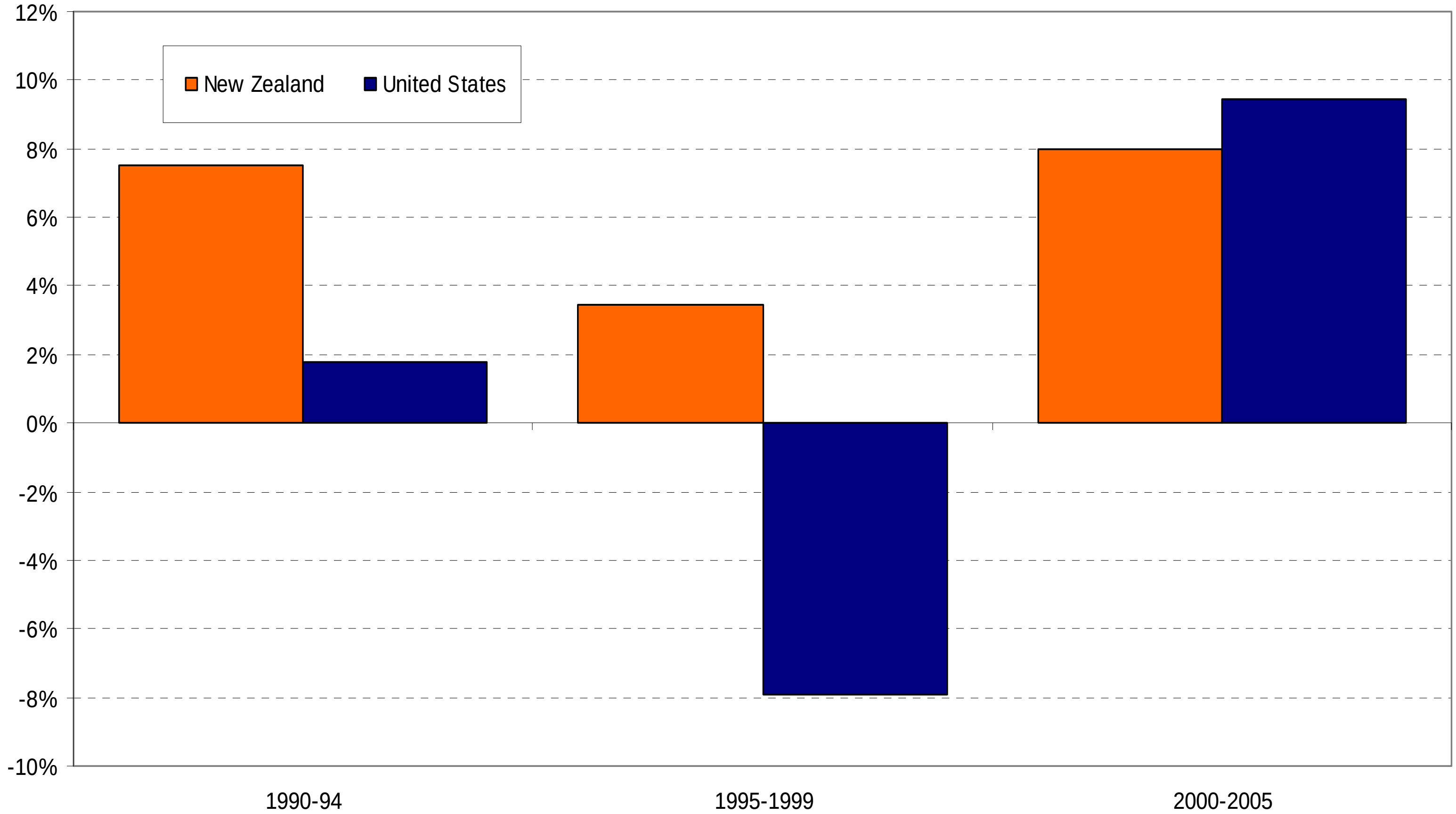
- Apples and pears
- No bureau for institutional performance – GIPs compliance
- Managed funds not in a gross environment so tax efficiency of strategy matters

Are NZ Fund Managers Geniuses?

NZSX50

- Australia is a free option
- Dominance of large constituents
- International investors focus on large cap only
- Local managers exploit Alpha opportunities in small/mid cap range
- Survivorship bias in constituent companies

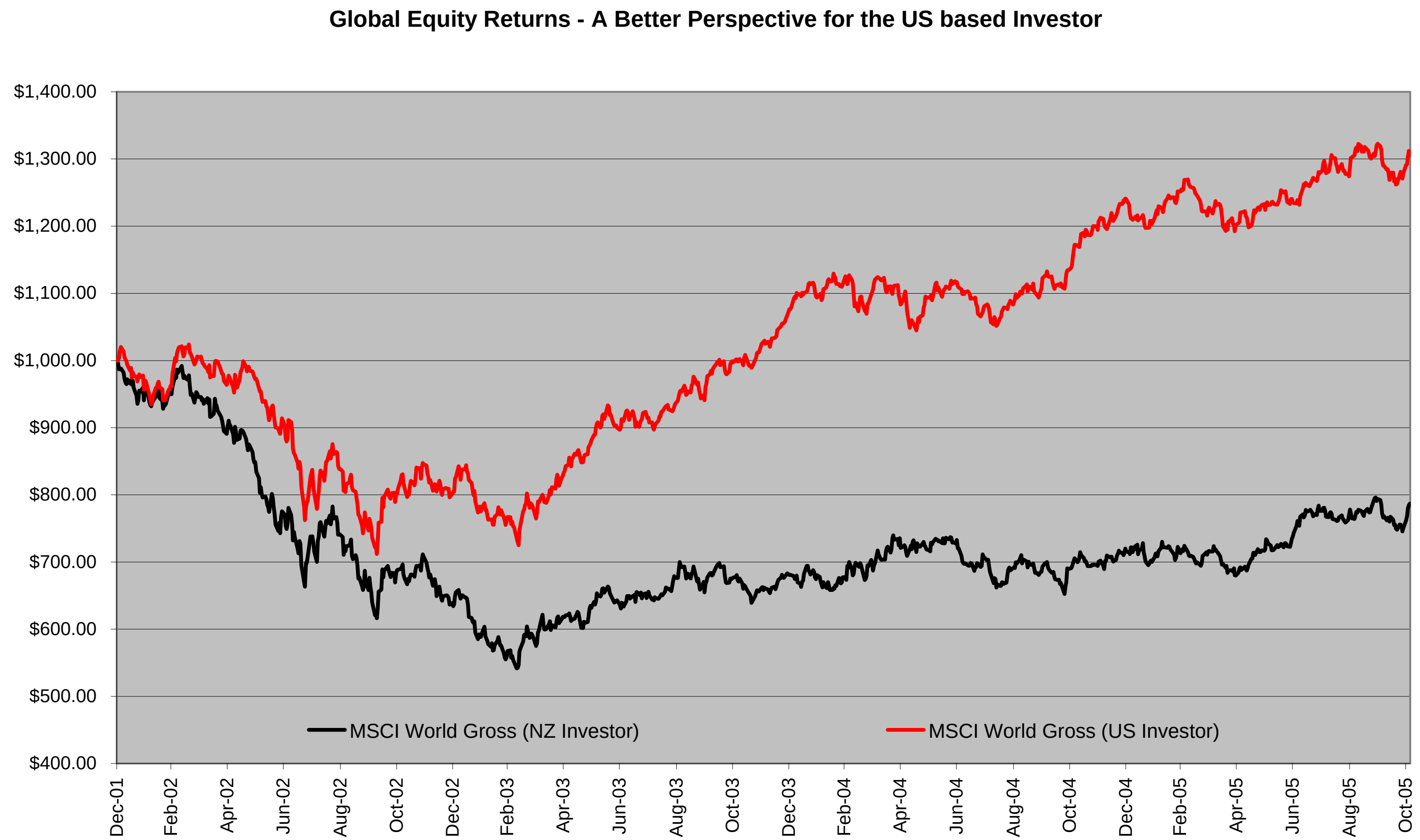
Equal Weighted Index vs Mkt Cap Weighted Equity Index: Annual Average Outperformance



Source: AMP

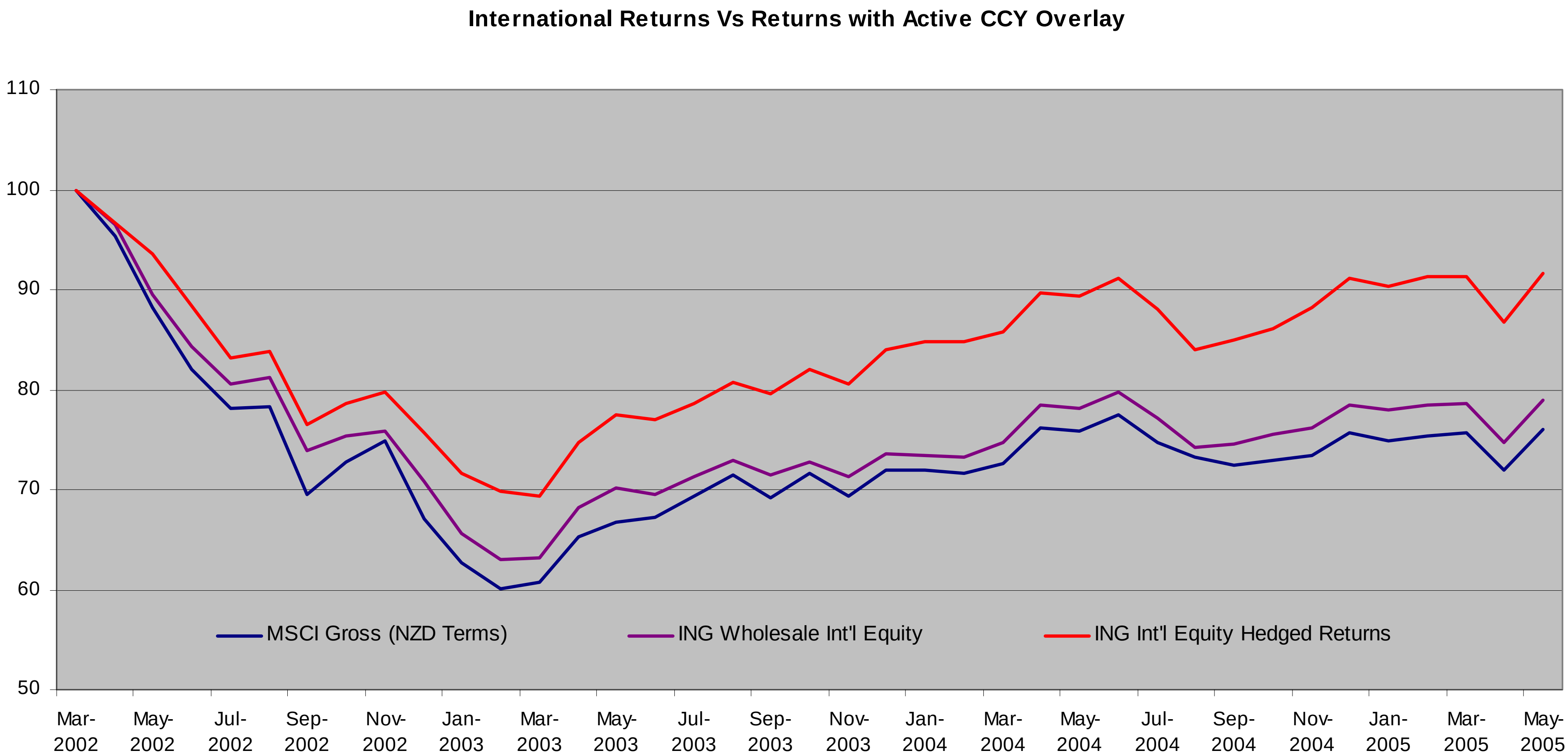
Will smaller stocks in NZ continue to outperform?

NZ Currency Impact on Global Equities



Source: ING NZ Ltd

Active Currency Management



Source: ING (NZ) Ltd

NZX

- Main index has low market cap to GDP of New Zealand – Agriculture/Energy
- Lack of derivatives market – low cost index funds

Tax

- Some changes in last 12 months
- Globally CGT too expensive to collect relative to revenues
- Existing regime is not enforced (ie Traders) and hollowed out IRD
- Property – too tax advantaged relative to "CGT" proposed on overseas equities

Savings

- Do Kiwi's save enough?
- Rational to pick property from a tax perspective
- Equity release/draw down global issue
- State super is indexed/Cullen Fund addressing funding gap
- Corporate Super – need compulsion and incentive
- Product Innovation – ISA's, stepping stone products for growth assets

Financial Education

- Access to financial information
- Internet/direct transactional capability
- Role of journalism
- Advice at point of sale – educated customer interface – Bank/IFA
- www.sorted.co.nz

Risk

- Tax advantages of direct shares NZ/overseas mean 1987 crash more damaging than overseas
- Little awareness of mark to market vs held to maturity
- Finance company debentures – little diversification from property
- High yield – no free lunch
- Recent benign credit environment

What does a BBB Rating mean ?

Five Year Default Rates by Rating (Moody's)

"Over a 5 Year Period, What portion of a Rated Entity or Investment is Expected to Default"

S&P	Moody's		
AAA	Aaa	0.15%	
AA+	Aa1	0.15%	
AA	Aa2	0.20%	
AA-	Aa3	0.20%	*ANZ Bank*
A+	A1	0.40%	
A	A2	0.60%	*Telecom NZ*
A-	**A3**	**0.60%**	
BBB+	Baa1	1.50%	
BBB	Baa2	**2%**	*Reg Income Fund - underlying only*
BBB-	Baa3	4%	
BB+	Ba1	7%	
BB	Ba2	9%	
BB-	Ba3	19%	*Pacific Retail Finance*
B+	**B1**	**25%**	*Geneva Finance*
B	B2	31%	
B-	B3	43%	
CCC	Caa-C	60%	
Default			

BBB versus B+

- A company rated BBB by S&P (which is equivalent to a Baa2 Moody's rating) has a 2% probability of defaulting over a five-year period of time

By comparison,

- A company rated B+ by S&P (which is equivalent to a B1 Moody's rating) has a 25% probability of defaulting over a five-year period of time.

- In other words, an investor with investments in 5 B+ rated companies should expect at least 1 company to default over a five year period

Regulation

- Confidence in financial markets
- Training and competency
- Individual accountability of senior personnel (government thinking of introducing ‘Fit and Proper’ regime
- Are the regulations here too lax? eg a well known manager here recently filed a SSH notice almost 2 months after the trade
- Most financial institutions – Australia owned - APRA