

Investor Focus



THE OCR, ING & YOU

For the
record

Timing
trials



Message to investors

Welcome to Investor Focus.

With the shortest day of the year been and gone, we can reflect on what has been a generally positive start to 2010. Markets kicked off the year strongly and continued on their path to recovery as business and consumer confidence rose. However, it should be noted that global markets still have some concerns around sovereign debt levels and the unwinding of the fiscal stimulus packages.

In New Zealand, the sharemarket continued to provide positive returns and the Official Cash Rate (OCR) remained steady throughout the March quarter. As indicated, the Reserve Bank recently raised the OCR by 25 basis points to 2.75%, making this the first increase since July 2007.

In this edition of Investor Focus, we take a look at how the OCR works, and how the increase (and decrease) of the rate affects you and interest rates. We also look at why it's important to keep your financial records in order, and how the benefits of being organised can actually save you money in the long run.

The May budget announcement turned out to be the largest shake-up of New Zealand's tax system in nearly 25 years. Overall, we believe that the proposed changes provide strong encouragement for Kiwis to invest and this is positive for New Zealand's long-term economic outlook.

We've recently been rolling out new look account information. We hope you find these much easier to understand and more informative, and we look forward to delivering further improved communications.

And congratulations to the winner of our Annual Investor Survey prize. Thank you to those of you who participated and provided us with your feedback; we value your thoughts, so please keep them coming.

Thank you for your ongoing support.

Paul Butler

Managing Director – Funds Management

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Budget Brief 2010

The Budget provided a generally positive long-term economic outlook and encouraged Kiwis to invest and get ahead. Below we take a brief look at some of the key changes that will take effect from 1 October 2010:

- GST will increase from 12.5% to 15%
- All personal income tax brackets decrease

Personal income tax rates

Income	Current rates	New rates
\$0 – \$14,000	12.5%	10.5%
\$14,001 – \$48,000	21.0%	17.5%
\$48,001 – \$70,000	33.0%	30.0%
Over \$70,000	38.0%	33.0%

- The top tax rate for Portfolio Investment Entities (PIEs) will reduce from 30% to 28%. Other PIE rates will also reduce to align with new personal income tax rates
- Benefits, including superannuation will increase by 2.02%
- Resident withholding tax (RWT) rates will align with new personal tax rates
- Fund withdrawal tax (FWT) will not apply to withdrawals relating to employer contributions made after 1 October 2010.

Other important changes include:

- The company tax rate will fall from 30% to 28% from the 2011/12 tax income year
- Loss attributing qualifying companies (LAQCs) and qualifying companies will become flow-through entities for tax purposes for income years starting on or after 1 April 2011
- Landlords and businesses are no longer able to claim depreciation on buildings from the start of the 2011/12 income year.

Overall, we believe the 2010 Budget is sending the right signals. Property investors will understandably not welcome some aspects of this Budget, but on a positive note, businesses will benefit from a reduction in the company tax rate which will hopefully help balance out the effects of the changes.

New and improved account information

You may be aware that we've been making some changes to improve the information we provide you on your investment. Soon you will receive your annual account statement and tax certificate. We hope you find the new look account information easy to understand and informative. We'd love to hear what you think of the changes, email us at service@ingnz.com

KiwiSaver news

Helping your savings grow

The recent Budget included further incentive for investors in PIEs (including KiwiSaver), with tax rates reducing from 1 October 2010. Rates will reduce to align with the new personal income tax rates and the top rate will drop from 30% to 28% – ultimately having a positive impact on savings. For more information visit ingnz.com or www.treasury.govt.nz

Don't forget the government could also help savings grow by 'topping up' members' KiwiSaver accounts each year by up to \$1,042.86 – officially called Member Tax Credits*. If a member contributes at least \$1,042.86 to their account within the 12 months to 30 June, the government could match this amount.

* Eligibility criteria apply. Refer to ingnz.com for more information.

The key to your first home

As we approach the third anniversary of KiwiSaver, many New Zealanders will be thinking about the tax free government housing subsidy – just one of the many benefits of KiwiSaver. From 1 July 2010, a first-home deposit subsidy from Housing New Zealand of up to \$1,000 for every year of saving (up to \$5,000*) could be available to help towards a first home purchase.

In addition, members may be able to apply to withdraw their contributions (excluding the \$1,000 kick-start and member tax credits) to buy a first home or purchase land to build a first home.

For more information and to check eligibility criteria, visit www.hnzc.co.nz or www.kiwisaver.govt.nz

* Income, house caps and other eligibility criteria apply.



THE OCR, ING & YOU

Those with long memories, and the requisite number of years, will recall the ravages made by inflation in New Zealand several decades ago.

Rearing up in the wake of the oil shocks of 1973, the double-digit monster eroded savings while prices climbed from one month to the next, gnawing away purchasing power. Rising unemployment struck at the same time, contributing to budget deficits. Debt levels also rose sharply as consumers and the government borrowed heavily to maintain their unsustainable lifestyles. This further fuelled inflation.

New Zealand was not alone. Every developed nation felt the sting of inflation to some degree at this time. Economists around the world looked for answers, and they found them in the ideas of the monetarist economists. Monetarism, which is closely associated with the work of the late US economist Milton Friedman, advocated keeping a strong hand on a nation's money supply in order to create a healthy economy and curb inflation. The influence a central bank could bring to bear on interest rates played an integral part.

Paul Volcker, today an economic adviser to President Obama, is credited with taming inflation in the US in the early 1980s when he became chief of the Federal Reserve (the US central bank). He did it by raising interest rates to what were unseemly levels at the time.

New Zealand adopted a similar approach, empowering the Reserve Bank to administer the hard medicine with the passing of our Reserve Bank of New Zealand Act 1989. The Reserve Bank was (and still is) charged with keeping inflation at a level that is set in agreement with the government, which at the moment is between 1% and 3%. The chief anti-inflation weapon in the Reserve Bank armoury is the Official Cash Rate (OCR). It rests upon the discretion of the Reserve Bank Governor (currently Dr Allan Bollard), how that weapon is used.

“The impact of any adjustment to the OCR is felt throughout the economy.”

The Reserve Bank is often called the ‘bank of the banks’. Every personal banking transaction you make actually spends a night at the Reserve Bank on its way to another bank. The OCR is the rate that the Reserve Bank is prepared to lend to and borrow from banks overnight. Eight times annually, the Reserve Bank Governor announces what that rate will be. These announcements are closely heeded by... well, by almost everybody with a stake in the economy.

“The impact of any adjustment to the OCR is felt throughout the economy,” explains ING Head of Fixed Interest, Graham Ansell. “Every trading bank has to alter its rate accordingly. People with floating mortgages normally feel it immediately, of course, as do most investors. Companies suddenly have to pay more, or less, for credit, and that has an impact on stocks. The exchange rate is also affected.”

Obviously, savers benefit from a rise in the OCR. For borrowers, the opposite is true.

“It’s by far our most significant economic lever – barring radical legislation,” adds Graham.

For the economy overall, it’s a fairly straightforward case of cause and effect. When the OCR rises, it becomes more expensive for people and businesses to borrow, so the flow of money decreases, putting downward pressure on inflation. Higher interest rates can also cause a nation’s currency to appreciate because foreign investors are attracted to the higher yield. When the OCR drops, once again the opposite normally occurs.

It is a delicate line that Dr Bollard is constantly treading. Rates have to be high enough to attract investment, yet at the same time there is the danger that too higher interest rates will hurt domestic businesses and consumers that rely on borrowing money from banks.

The OCR has been in an unusual holding pattern over most of the last year, as the economic crisis has demanded an extended period of lower-than-normal interest rates. Dr Bollard, in line with other central bank bosses, began drastically dropping the OCR in 2008 until it reached an all time low of 2.5%. This measure was designed to keep money circulating and confidence afloat at a time when there were real fears of a Great Depression-like downturn.

We are beginning to emerge from that period now, with Dr Bollard recently increasing the OCR to 2.75%.

Here at ING, anticipating and monitoring moves in interest rates and their effects is of vital importance. Any anticipated or actual change in the OCR by Dr Bollard has a major bearing on where and when our investments are made across all sectors.

“I think the Reserve Bank will embark on modest hikes from June or July,” says Graham. “But they will be modest, nothing too aggressive. We’re not heading back up to 7% or 8% again in a hurry... the economy is still too fragile to absorb that.”

Our view on where the OCR is currently, and is likely to go in the future, has a direct bearing on where we look to invest our cash. For instance, over the last 12 months, we’ve been moving out of cash and into longer-term securities (bonds), where the yields are better. This strategy makes sense if the view is that the Reserve Bank won’t be hiking rates aggressively in the short to medium-term.”

“It’s by far our most significant economic lever – barring radical legislation.”

In some quarters, the OCR has been criticised as being a blunt instrument, in part because it can take time for its effects to filter through to all parts of the economy. Other critics feel that it is too focussed on tackling inflation, when promoting growth should be the overriding consideration.

However, as yet there is no likely alternative presenting itself.

“The OCR can lack precision,” says Graham Ansell. “But it can also accomplish what it sets out to achieve. It operates free of political interference, which is very important, and I think it will be there for a good while yet.”

For the record

“I don’t suppose you have some proof of that transaction? It was a while ago...”



“Wait one minute,” you reply. You go straight to a shelf and withdraw a large ring binder. In a matter of seconds you are back on the phone, relaying the news that there’s nothing to worry about because yes, you are holding – nay, triumphantly waving – the necessary transaction record.

Or alternatively you sigh, wonder which shoe box in the garage that document may or may not inhabit, then ask the caller to give you a few days to have a look for it.

Few topics are as dry and yawn inducing as the keeping of financial records. After all, it does involve filing systems. But that doesn’t mean it’s not important. The consequences of getting it wrong can be irksome, to say the least.

Although increasingly we receive bills and other documentation via cyberspace, when it comes to financial

records, the important stuff is still very much ‘down on paper’.

It doesn’t really matter which system you use to keep and safeguard your records. The main thing is that it is unified, efficient and works for you. If you’re a homeowner and/or running a business, a filing cabinet is probably a good idea – both entities generate a fair amount of paperwork.

What needs to be stored? When it comes to purely financial records, there are two main reasons to keep documents: a) tax issues and b) proof that you did something like make a payment. Tax, of course, covers a wide net that includes bank and credit card statements, income receipts, expense invoices and so on.

Then there are all those other documents that are related to your finances which are important to have at hand, such as mortgage documents,

share certificates, trust documents, investment information (you should have a special file containing all your KiwiSaver documents), insurance policies, loan agreements, rental agreements, contracts, wills, birth certificates... the list goes on.

The benefits of being organised in this way are manifold. You’ll save yourself money as well as time (not a single tax deduction will slip between the cracks). And remember that obtaining replacement documents can be costly. It also enables you to have a better handle on your financial position, while providing your next of kin with a more orderly management task if the worst should happen.

The big question, especially if you’re a clutter-free fanatic, concerns the length of time you need to keep your records. In the case of tax documents, it’s seven years – the IRD can choose to carry out an audit of any year in that period. Companies are required to keep documents for 12 years to comply with the Companies Office.

All those bank and credit card statements don’t need to be kept nearly that long. Most experts recommend you save statements for a year, when you can double-check them against your end-of-year interest certificate from the bank. Incidentally, the time frame for notifying banks and credit card issuers of statement errors is generally 60 days after the error appears.

You should keep insurance documents for as long as the policies are valid, while paperwork related to wills, inheritance, property ownership and the like, obviously need to be kept indefinitely.

And there’s no sense in keeping the first electricity bill you received in the first house you owned all those decades ago... unless you’re a masochist.

Timing trials

We've all heard the stories. Such-and-such sold all his equities just days before a sharemarket downturn kicked in. As a result he escaped completely unscathed.

Cashed up, he kept his capital on the sidelines earning nominal interest before making a return to equities. And wouldn't you know it? His timing was spot on – no sooner was he back in there than the market started going up again.

We know we should take such stories with a grain of salt. But over the past year or two it has been impossible not to give at least passing consideration to such a move. Why not put everything in cash, just for a while, and wait until the aftershocks subside and everything settles down? Wouldn't that be a safe option to take?

At the moment, it doesn't appear as if significant numbers of investors are acting on that impulse. For the quarter to 31 March 2010, at ING we experienced a net inflow of nearly \$139 million to our KiwiSaver funds, which was the largest of any Fund Manager in the country. However, on the other side of the ledger, we (along with a number of other managers) did see some fund outflows.

Perhaps this indicates that investors are opting for what they perceive to be safe options.

But anyone who thinks that safety can be found in cashing up completely should think again.

If you were to convert an investment portfolio that was, say, weighted towards shares to 100% cash, you would be indulging in what we call 'market timing'. You have decided that now is a good time to leave the markets to which you've been exposed.

The trouble is you know deep down you've missed the best moment to get out of the world's sharemarkets. It was before the crisis hit, a couple of years

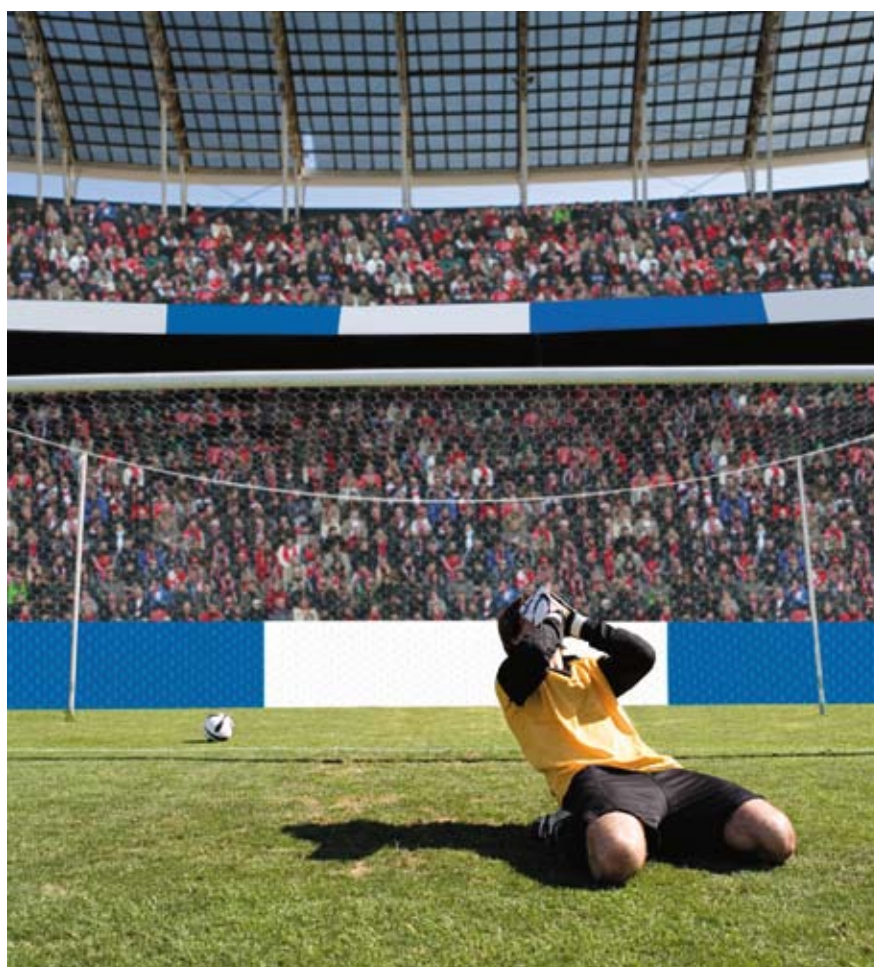
ago. You're selling now for emotional reasons and in doing so, all you're doing is cementing your losses. While you may feel safer in cash, with interest rates currently very low you certainly won't be looking at stellar returns. And it's possible that safe feeling will soon be trumped by anxiety as you try to decide when would be a good time to return to the market.

Anyone who thinks that safety can be found in cashing up completely should think again.

Being on the sidelines is just as it sounds – you're not in the game. Like a lot of games, one point can be scored at unexpected moments. The financial consequences, though, can be severe if you miss them. A 2005 study* in the US tested the index of American stocks from 1963-2004. The index gained 10.8% on average. However, if the markets' 90 best performing days were missed, that annual return fell to 3.2%. Less than 1% of the trading days accounted for 96% of the market gains.

So calling timeout can indeed be costly. From then on, the only game you'll be playing will be catch-up.

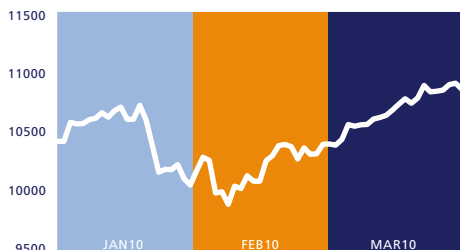
* www.towneley.com/pdf/MT%20Study%202004.pdf



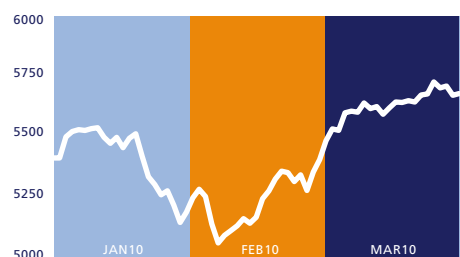
Market review

The ING New Zealand Investment Team reviews the markets for the March quarter 2010.

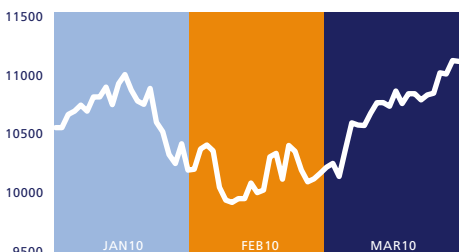
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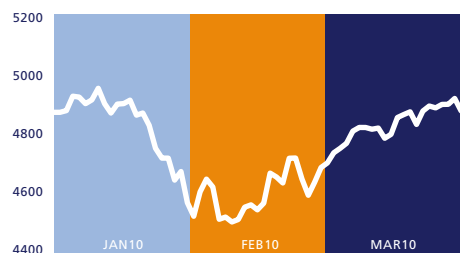
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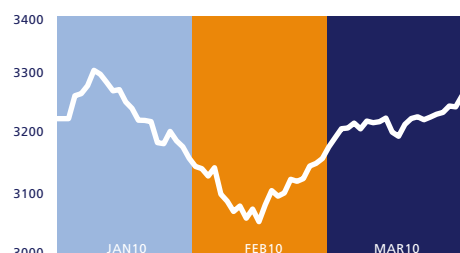
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International Shares

Global equity markets started the year strongly but experienced a sharp sell-off in late January on concerns over sovereign debt levels, particularly in smaller European countries. Despite this, global equity markets continued their recovery over the remainder of the quarter with most major equity indexes at or near 18 month highs.

Concerns over the fiscal deficit of Greece eased somewhat when leaders of France and Germany finalised a deal on a joint European Central Bank/ European Union/International Monetary Fund financial safety net for European zone countries. However, there continue to be fears about the impact of weak government finances on the global economy.

Data released by the US Institute of Supply Management (ISM) continued to show signs of recovery in both manufacturing and non-manufacturing businesses. Consumer confidence in Europe has risen as have manufacturing and industrial production readings in the large European countries.

While significant risks still face the global economy, leading indicators of growth continue to signal a reasonable recovery for 2010 and 2011. Economic growth in developed markets appears to be gaining some momentum and it is increasingly likely that it will be sustainable. The quarterly earnings results showed broad revenue growth in the fourth quarter, which coupled with significant operating leverage, has delivered year-on-year earnings growth in excess of analyst expectations and helped keep valuations around "fair value".

However, consumers in the developed markets may be constrained by high unemployment and housing markets that are yet to fully stabilise. The effect of reducing debt levels and the removal of policy stimulus will be a headwind for growth in coming years. As a result, we expect more moderate returns from growth related assets (shares and property).

New Zealand Shares

The New Zealand sharemarket rose 1.51% over the March quarter, the fourth consecutive quarter with a positive return.

Business confidence is now firmly positive with a net 43% expecting better times for the year ahead; this is consistent with a return to above-trend economic growth.

While leading indicators in building, retail and migration tend to suggest the pace of recovery is likely to be more moderate, the balance of risks for the New Zealand equity market remains positive.

GDP forecasts for the NZ economy are also for moderate growth during 2010. There are signs that the rebalancing of growth is beginning to occur away from consumption and housing and towards the external sector. Valuations are reasonable and as long as company earnings continue to reflect the improving economic environment, the market can move higher. The key risk in the short term is a weakening in the property market due to the government's proposed tax changes.

International Fixed Interest

In the US, 10-year bond yields were volatile over the quarter, moving slightly higher in yield on the back of generally favourable economic news. The 10-year bond ended up where it began in 2010 at 3.83%. Australian bond yields rose over the March quarter to 5.79%, on the back of prospects for further tightening in short-term interest rates.

The Reserve Bank of Australia raised its OCR on 2 March 2010 to 4.0%. Australia now has the highest cash rate among the world's developed economies. Most commentators were expecting the move, following an improvement in economic conditions, driven largely by Australia's export led recovery into China.

The global fixed interest market, as represented by the JP Morgan Government Bond Index, returned 1.82% (fully hedged into NZD) for the March quarter. For the twelve months ending 31 March, global fixed interest returned 4.76%.

Globally we expect the US Federal Reserve and the European Central Bank to leave monetary policy unchanged over the short term. However, rate increases are likely next year as global growth continues to recover.

New Zealand Fixed Interest

The New Zealand government bond market returned 2.27% for the quarter, outperforming cash, which returned 0.69% over the same period. Over twelve months, the New Zealand government bond market returned 4.14%.

New Zealand economic data was weaker than expected during the quarter. The unemployment rate rose from the RBNZ's projection of 6.50% to 7.30%. This, coupled with lower inflation data and a noticeable cooling in the housing market data, has forced market participants to push out the date for significant rate hikes.

Despite the previous expectations that the RBNZ would begin raising rates in April, expectations moved, with the first rate increase to be in June or July.

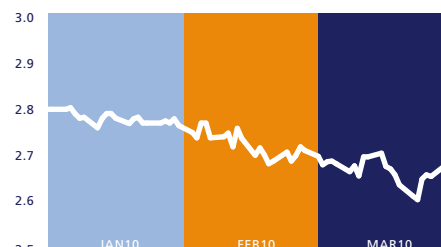
Property

The NZ property sector as represented by the NZX Property Index (gross), returned -2.43% for the March quarter, underperforming the broader equity market NZX50 Index (gross), which returned 1.51%. The sector's performance for the 12 months to the end of March was a gross return of 17.82%.

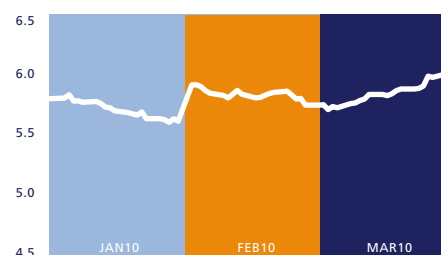
The key news over the first quarter was the release of the Tax Working Group's (TWG) report and its implications for the listed property sector. There was some relief following John Key's opening speech to Parliament in which he ruled out the idea of a land tax and changes to the capital gains tax regime. However, the sector will be impacted by changes to the rules around depreciation announced in the 2010 Budget.

The Australian property sector returned -1.5% for the quarter, underperforming the broader market by 2.9%. The sector's performance for the 12 months to the end of March was an impressive 40.6%, albeit off 10-year lows reached in March 2009. Higher bond yields, tactical allocation out of the sector by balanced funds and profit-taking by offshore funds all contributed to the sector's weaker performance during the first quarter of 2010.

NZ 90-DAY BANK BILL



NZ 10-YR GOVT BOND



Football's four yearly fiesta

Factoids and figures around the greatest sports show on earth.

How big?

The Football World Cup is the most widely-viewed and followed sporting event on the planet, exceeding even the summer Olympics. The 2006 World Cup final was watched by 715.1 million people – a ninth of the world's population. The 2010 event in South Africa is expected to generate close to US\$4 billion for FIFA, football's global governing body. Compare that to the 2011 Rugby World Cup, which is likely to net the IRB less than a tenth of that sum.

The winner's circle, 1930-2010

There have so far been 19 Football World Cup finals' tournaments, counting this year's in South Africa. The first was held in 1930 when Uruguay hosted – and won – the event. The trophy has only been won by seven countries. You guessed it (or knew it) – Brazil has won the most times (five), but Italy is close behind with four championships. On six occasions, the host nation has been the winner, which says a lot about home advantage. All seven previous winners will be competing in South Africa.

Let's hear it for the Samba Kings

Brazil is almost synonymous with the Football World Cup. As well as having won the most championships, Brazil has also won the most matches (64), scored the most goals (201) and scored the most goals by a team in a World Cup grand final match (five). Brazil's Ronaldo is also the event's all-time leading goal scorer with 15; his famous compatriot Pele is fourth on the list with 12. Pele also became the youngest ever World Cup goal scorer when he banged one in against Wales in 1958, aged 17.

High and low

The highest attendance for a Football World Cup match was for the grand final in 1950 at Rio de Janeiro, where an incredible 199,850 turned out at Maracana Stadium to watch Brazil play Uruguay. At the other end of the scale, just 300 people attended Romania v Peru in Uruguay in 1930.

The unluckiest Football World Cup teams

The English are forever lamenting their team's fortunes, but at least they have won it once, in 1966. Germany may be three times champions, but they've also been the losers in four other World Cup grand final matches. But the unluckiest team never to have won a World Cup would have to be either Holland or Hungary. Holland have made the final twice (1974 and 1978), losing both times to the host nation. Hungary, though, were the fear of world football during the early 1950s. They famously dealt to England 6-3 at Wembley in 1953 and were nearly undefeated between 1950-1956. The Magic Magyars (as they were known) were tripped up by West Germany in the 1954 World Cup final, 3-2.

The road to South Africa

The qualifying campaign for the 2010 World Cup kicked off in Apia, Samoa on 25 August 2007. The quest for the 32 finalists consisted of 853 games and produced 2,344 goals as 268 countries were eliminated.

The All Whites

Along with New Zealand's All Whites, Greece and five other countries are making their second World Cup finals appearance in South Africa. The TAB is offering odds of 1000:1 against NZ winning the Cup. It's all set then... we love being the underdogs.

Investor Survey – and the winner is...

Thank you to those of you who completed our investor survey, which sought feedback on our communications, service and products.

All returned surveys (received before Friday 30 April 2010) went into the draw to win a \$1,000 travel voucher. The prize was drawn on Friday 7 May 2010, and we are pleased to announce that the winner was...

Mr Trevor Jones from Christchurch – *Congratulations!*

You're always welcome to give us your thoughts – simply complete the coupon at the back of this magazine or email us at service@ingnz.com



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Telephone: (home): _____ (work): _____ Cellphone: _____

Signature/s: _____

NB: If the investment is in joint names or in the name of a trust, we require the signatures of all investors.

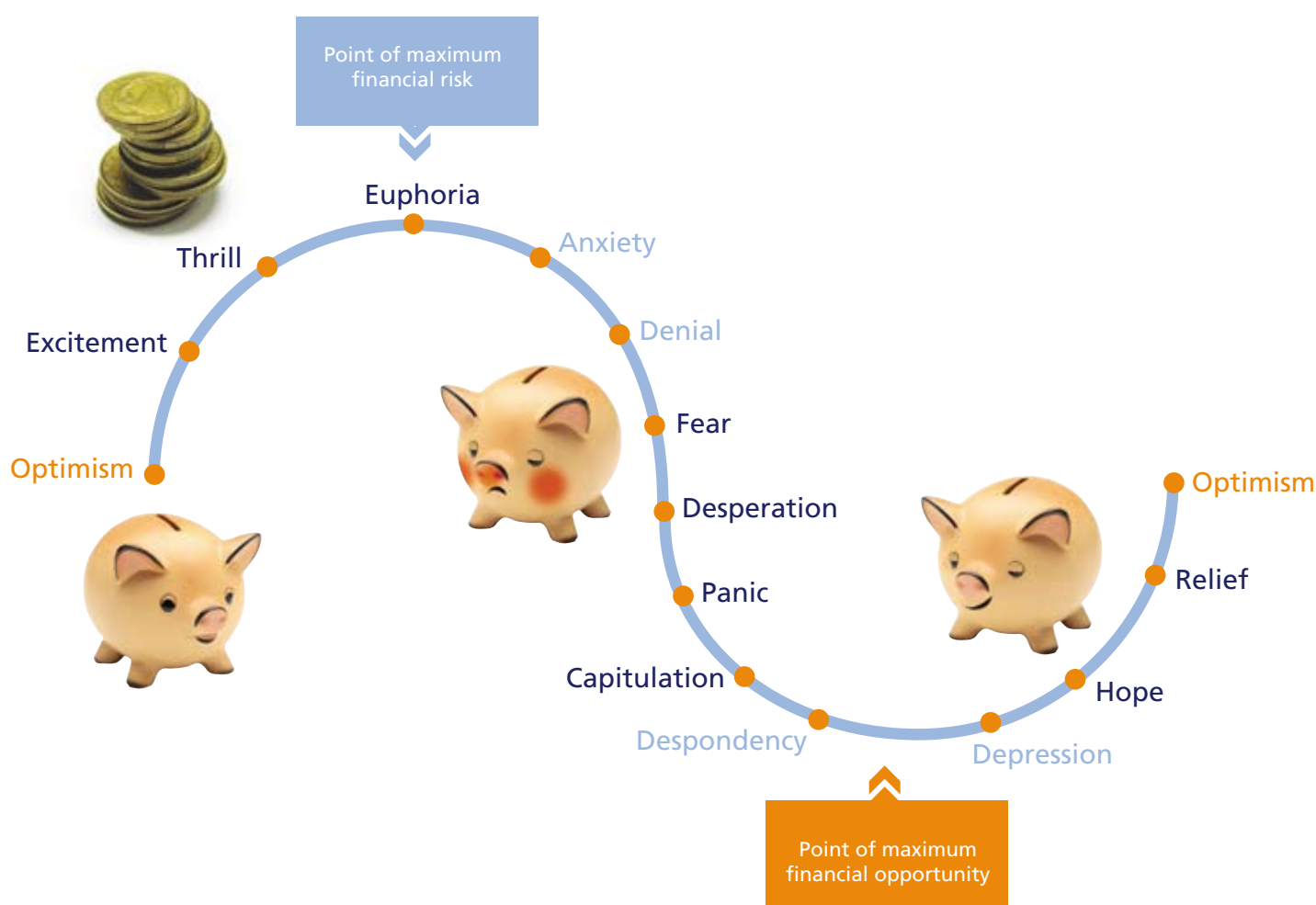
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The cycle of market emotions

Whether you are investing for your retirement, your children's education or a dream home, it's likely you will have some level of emotional attachment to your investments. After all, you worked hard for that money, and now you expect it to work hard for you.

But your emotional reactions can also compromise returns and your ability to achieve those goals; particularly during the ups and downs that are inevitable throughout the life of your investment.

Setting and staying true to your long-term investment strategy is the best way to take the emotion out of investing. That way, your ability to ignore short-term volatility can help you ride out the cycle of emotions – and get the best results.



Contact your financial planner to discuss your investment strategy.