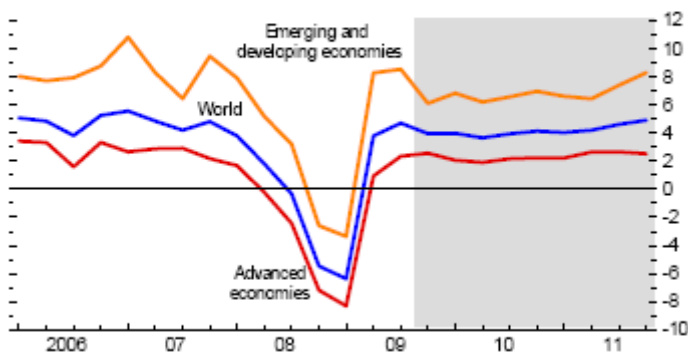


March 2010 Market Review

During the March quarter, we saw what was the spark of economic recovery in late 2009, fully ignite with economic growth returning although unevenly, right across the world.

Figure 1. Global GDP Growth
 (Percent; quarter-over-quarter, annualized)



Source: IMF staff estimates.

The bounce from the depths of recession and near depression in 2008/9 has been remarkable and only achieved by massive global Government intervention supported by resilient leadership growth from China, India and other champion emerging nations.

The shape of the recovery to date has been “V” like which is not sustainable given it has been artificially achieved.

While there remains a significant risk of a return to recession if private and business activity does not become self-sustaining, our core expectation is that growth will level off and remain positive, but unexciting for many years while governments begin to deal with their public debt hangover and the long-process of rebalancing their books with the countries they have been borrowing from.

In our December report we argued that the pace of stimulation by indebted governments was not sustainable for very much longer and this is proving to be the case. In order to bail out the global financial system and then additionally stimulate economies, many countries particularly the US and UK has been borrowing at ‘war-time’ like rates. The US for instance has increased its public debt as a % of its gross domestic product (annual total economic output) from 54% in 2000 to 60% in 2008 and now 85% in April 2010. Forecasts have this rising to 100% by 2012 and this does not include the impact of their new health reform package which looks far from revenue neutral. This story is repeatable for Japan, UK and Eurozone countries.

Fortunately, we are not only seeing global economic recovery but also signs that this recovery is starting to transition to a self-driven footing. Some of the key signals that suggest this include:

- Central banks are reducing their financial system support such as guarantees and auction facilities and have started selling back assets they were forced to buy (and at a profit)
- Central banks are starting to lift interest rates (Australia leads the way) or towards lifting rates
- Business investment turned positive during the quarter
- Business confidence and consumer confidence have jumped sharply everywhere
- Business profits are higher than expected (80% of S&P 500 companies beat analysts expectations)
- Unemployment globally is stabilising
- The critical US residential home market is showing signs of price stabilisation
- Industrial production and global trade have both risen sharply for the last 3 quarters
- Credit lines while still weak are growing again, while the velocity of money (speed it re-cycles around the economy has also picked up)
- Leading economic indicators are also supportive for continue economic growth but at a slower rate.

All eyes have been on the US as the most important economy requiring self-sustaining recovery. We provide a quote from Ben Bernanke in his statement to the Joint Economic Committee on the 14th April.

... "With inventories now much better aligned with final sales, however, and with the support from fiscal policy set to diminish in the coming year, further economic expansion will depend on continued growth in private final demand. On balance, the incoming data suggest that growth in private final demand will be sufficient to promote a moderate economic recovery in coming quarters. Consumer spending continued to increase in the first two months of this year and has now risen at an annual rate of about 2-1/2 percent in real terms since the middle of 2009. In particular, after slowing in January and February, sales of new light motor vehicles bounced back in March as manufacturers offered a new round of incentives".

While his language might sound subdued in context it is a remarkable statement and suggests that there is chance we can expect a continuation of growth albeit it may be slower growth for many years.

It is important to note that the global recovery is uneven with better signs coming from the US, UK and Japan. While China, India, Brazil, non-Japan Asia and other emerging economies are continue to lead the way, the Eurozone countries are struggling and expected to remain very weak this year.

IMF World Economic Outlook Projections

GDP	2009	2010
World Total	-0.8%	3.9%
US	-2.5%	2.7%
Euro Area	-3.9%	1%
Japan	-5.3%	1.7%
UK	-4.8%	1.3%
China	8.7%	10%
Emerging Countries	2.1%	6%
World Trade	-12.3%	5.8%

As the global economy re-bounds, so have investment markets been pricing in improving expectations by the day. Following an expected pull-back in the first quarter (Global Shares fell - 9% in February) share markets, commodity markets and debt market securities have all recommenced their rise with Global Shares + 5.2% over the quarter. Residential real estate markets in the US and UK are also showing signs of life while the problematic late-cycle commercial real estate markets remaining under pressure.

At present share markets and debt markets are approaching or have reached fair value based on current economic growth. However, with historically large levels of cash still being held and the prospects of interest rates rising but slowly, investors will be further drawn to shares and higher yield debt markets. While the risks remain significant, economic recovery in 2010 may surprise on the upside causing a re-rating of company earnings expectations and supporting further market rises.

On the flip side (and there always is one), the world's economies remain dangerously and structurally imbalanced. There is little room for debtor nations to keep attracting foreign borrowings to fund their economies, During the rest of 2010 the US, UK, Japan and the Eurozone in particular, will have to demonstrate their debt is not only under control but they have clear strategy to start repaying it. Along the way they will have to assist their overspent neighbours (Greece, Ireland, Spain

and Eastern European bloc countries) with emergency funding to prevent any contagious fallout that might occur from these weaker countries defaulting.

Whether we have a gentle intergenerational re-balancing between debtor and lender countries (which we believe is already well under way) or a seismic event that leads to trade wars, capital flow restrictions, further asset value collapses and national defaults is yet to be seen. We firmly expect the brighter outcome because that is the only one that is globally politically acceptable.

The global economy and asset markets continued to improve over the December quarter, maintaining the rally that started back in March. The strength of the rebound over 2009 reflected the rapid change in the economic outlook from possible depression, to the end of a recession and now a return to positive global growth.

Following this rebound, share markets are now pricing in a slow but positive global recovery in 2010 with an expectation that corporate profits will be much improved.

To date, the stabilisation of the financial system and the subsequent economic recovery has been driven by strong globally co-ordinated fiscal and monetary policy intervention.

With the world now expanding again, 2010 will be about how key economies can transition themselves to self-sustaining growth as governments start to unwind their stimulus. There are certainly very positive signs from developing countries and also from the key US economy that this transition is already underway.

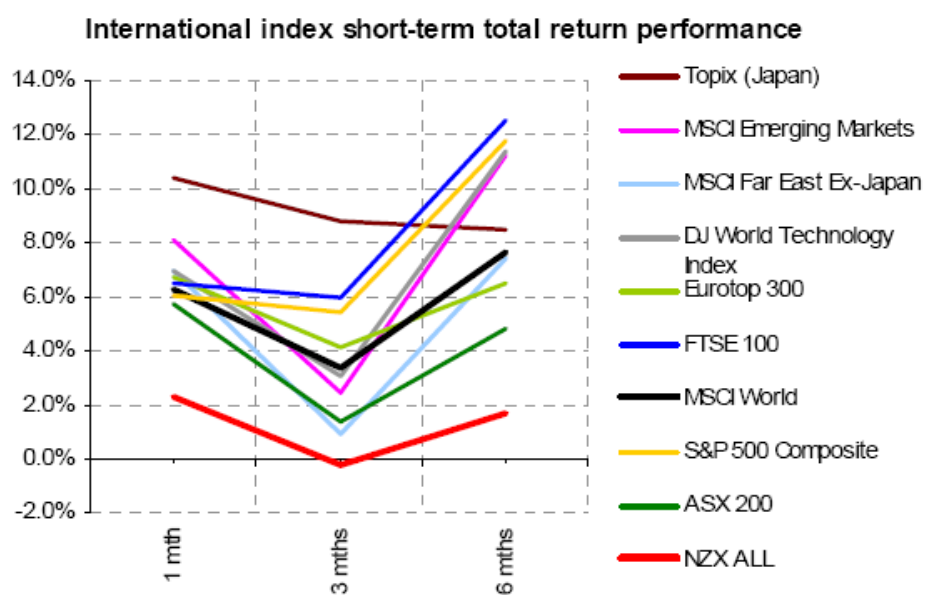
2010 will not be without risk. It is certainly possible the world could slip back into recession given the very fragile nature of the global financial system and particularly given that debtor countries (UK and US) are running dangerously close to capacity to further debt fund and stimulate their countries back into recovery.

While our central view is for a continuation of global economic recovery in 2010, it will be a lumpy year with set-backs and a crisis or two thrown in on the way. As always, we remain focussed on risk management and it will be important to ensure all portfolios are managed to their target asset allocations (with profits being taken) and that they remain diversified into high quality assets.

MARKETS OUTLOOK

Global Shares

As we discussed in our December quarter report we expected markets might give back some ground as mixed economic data revived concerns about the sustainability of the global recovery. Weaker than expected US consumer and employment data early in the year was enough to pull global share markets down in late January then back even further down in February as secondary round fears that the global financial system may be under threat again following the Greek debt crises.



With the European Union developing a short term rescue plan of Euro 50 billion to fund Greece's short term debt and averting a national debt contagion, global share markets regained confidence in March recovering the 9% fall in February

adding a further + 5.2% to finish the quarter ahead.

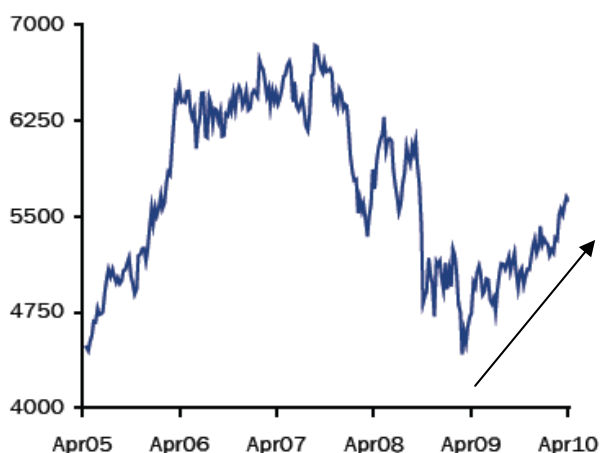
Source: ASB Securities

The US market was up + 5.5% for the quarter, UK + 6.1% and Germany + 9.9% as investor confidence continues to be underpinned by consistently better economic data and corporate earnings results which are surprising on the upside. According to Bloomberg the combined profits for S&P 500 companies was + 30% higher than in the first quarter 2009. During the recent earnings reporting season more than 80% of S & P 500 companies beat consensus analyst expectations.

S & P 500 companies are currently sitting on record levels of cash. With historically low levels of balance sheet gearing there are signs business investment is once again positive. The focus is all on potential earnings growth and the key factor driving global share prices at present. While values are looking high against current and trailing earnings (about 21x) they still look reasonable on

forecast earnings (about 16x) and good value if forecast earnings are again beaten. We believe future earnings growth could surprise the market on the upside again.

MSCI World Equities Index (NZD)



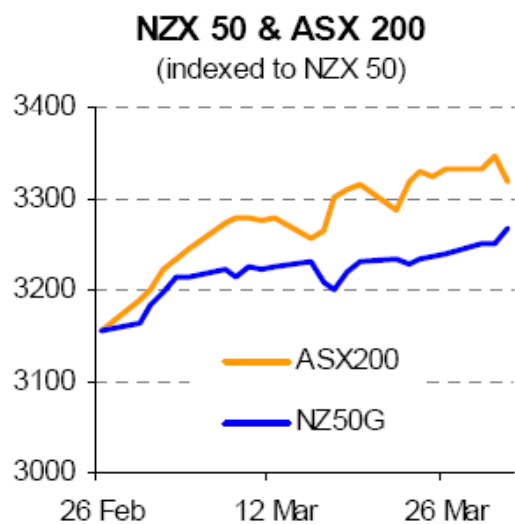
Source: Bloomberg

While global share markets have had a very strong run over the last 12 months it is important to remember they still have significant ground to recover their market highs in 2007.

It is also pleasing to see that global share market volatility has reduced over the quarter back to historically average levels.

Australasian Shares

The Australian sharemarket posted a +1.4% gain over the quarter as their economy continued its return to strong growth on the back of resurgent Chinese, Indian and Japanese demand for



Australian raw materials and energy. The effects of their strong export growth has filtered into other parts of their economy with employment growing, residential real-estate prices rising and better credit availability. To address pending inflation pressures the Reserve Bank has already moved five times to raise interest rates. The prospects of further rate rises may be starting to dampen market prospects though ironically the rate rises are a sign of faith in the recovery which might support investor confidence for longer.

Source: ASB Securities

While it was a more subdued quarter for economic news in New Zealand, our share market still posted a respectable return of + 1.2%. Record prices for NZ commodities and a competitive exchange rate against the \$US and \$AUD assisted our export oriented companies.

Global Bond / Fixed Interest Markets

The prospect of sustained recovery sees central banks commencing the cycle of interest rate increases putting bond prices under pressure particularly during March as the longer dated interest rates begin to rise. The requirement to attract funds to cover increasing government borrowing (particularly in the US and UK is also pushing interest rates higher in key markets). During March, US Treasury auctions were not well received suggesting foreign investors (particularly the Chinese) are showing an increasing reluctance to fund US public debt. The US Federal Reserve continued to buy and supporting its own government's issues (quantitative easing) keeping the lid on US Treasury yields.

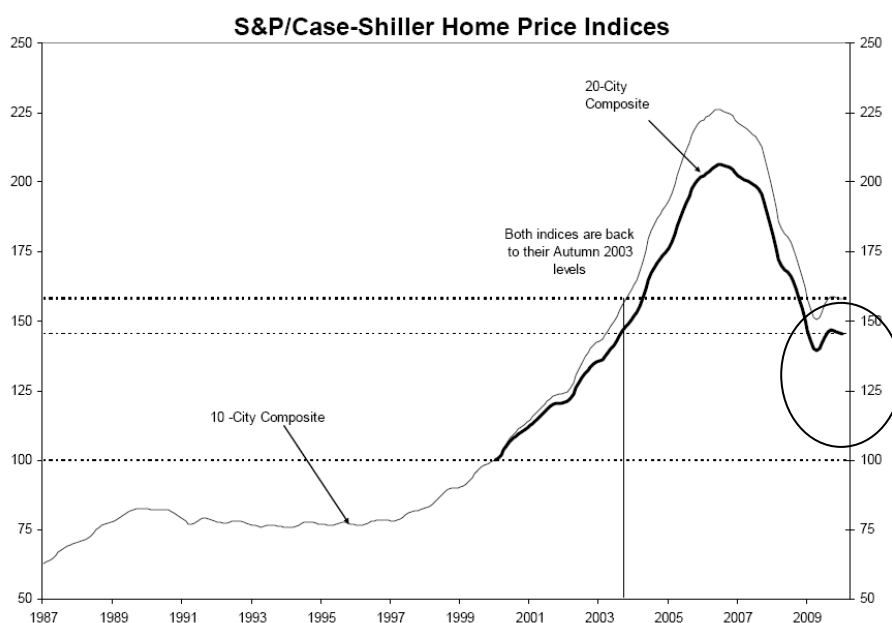
Despite the prospect of rising interest rates in the near future global bonds posted a positive return for the quarter and in recent weeks bonds have rallied further on the prospects of debtor governments talking about tighter budgeting (a key UK electoral issue for the Tories).

Deeply discounted asset backed debt such as US residential mortgages continued to rally during the quarter as the outlook for house prices improves. Interestingly the market is competing with the US Federal Reserve to buy and price much of this asset backed debt arguably creating too much of a premium on these securities. It is remarkable how far these asset-backed debt markets have recovered over the last year.

In NZ, bonds prices have been stronger, tracking the offshore rates. As the Reserve Bank begins to raise interest rates we expect bonds, particularly longer dated bond to lose value. We have been maintaining client bond portfolios with shorter average maturities than the market in anticipation of a return to an increasing interest rate cycle. These shorter average maturities will provide better protection against rises in long term rates.

Real Estate

US and UK residential real-estate markets continued to stabilise in the March quarter with US



Source: Standard & Poor's and Fiserv

prices flat on a year ago (but back to 2003 values) while UK prices were up + 7.4% on 12 months ago. After falling 33% from 2006 highs the US residential market is finally showing signs of stabilisation which is absolutely critical for global financial stability

and recovery. While nationally US residential real-estate prices are flat they are positive in some key regions such as Florida and parts of California where prices were down as much as 60%. Arresting this slide means home-owners can begin to the long process of re-building equity in their homes.

New Zealand residential property continues to be supported by migrant demand, lower interest rate costs, resilient employment and a lack of supply. Looking ahead we expect another round of property price weakness as building consents and building activity rises, net migration softens (though still positive) and mortgage rates rise. The May Budget also promises to unleash changes to the way tax deductions are allowed for property investment. Restrictions in depreciation, ring fencing of losses and/or a quasi-capital gains tax might all be announced placing further pressure on property prices.

Commercial property, particularly office space continues to remain under pressure with office vacancy rates set to rise further in the key Auckland and Wellington markets. We hear forecasts of impending vacancy rates in Auckland CBD office space as high as 20% as new buildings come on stream and hidden vacancy is exposed as lease terms expire.

Currencies

Over the quarter the \$NZ dollar continued its depreciation against the \$A as the Australian economy accelerates away from ours. Their interest rates are now higher than ours attracting buyers for their currency. The \$NZ was also weaker against the \$US more as a function of increasing global confidence in the US economy recovering and the prospect the Federal Reserve will be raising interest rates from here. The GBP remains under pressure while the EMU crises brought on by weaker union members has put the Euro under pressure against all major currencies during the quarter.

\$US/\$NZ	\$NZ/UK	\$NZ/\$A	\$NZ/Yen	\$NZ/Euro	TWI
-1.8%	6.0%	-2.7%	-0.8%	5.7%	0.6%

Cash

Globally cash rates for the advanced countries remain historically low as central banks continue their easy monetary policies to support recovery. As countries move into a stronger position we expect to see others follow the lead of Australia and raise rates (possibly not as quickly) to head off inflation.

In New Zealand, our weaker but still positive emergent growth is likely to trigger a first round of interest rate rises from the Reserve Bank in June. While the official cash rate is 2.5%, banks and non-bank institutions continue to offer higher rates on call deposits and sharply higher rates on term deposits. Term deposit rates for retail investors remain higher than wholesale deposit market rates. This has been driven by the Reserve Bank requiring banks to hold a higher portion of their borrowings from supposedly stickier retail money. The competition for retail funds has led to a deposit rate war with banks chasing the same retail dollar. This is an unusual condition but one that is not likely to change in the near future.

ASSET CLASS RETURNS**March 2010 Quarter Returns**

Asset Class	NEWTON ROSS Return	The Market Return*
\$NZ vs TWI (Trade Weighted Index)	+ 0.6%	+ 0.6%
\$NZ vs \$US	-1.8%	- 1.8%
NZ Cash	+0.6%	+ 0.6%
NZ Bonds	+ 2.2%	+ 2.3%
Global Bonds –hedged to NZ\$	Nil Exposure	+ 1.8%
Australasian Shares	+ 3.7%	+1.2%
Global Shares – 50% hedged to NZ\$	+ 4.5%	+ 5.2%
Alternative Assets – 50% hedged to NZ\$	+ 4.1%	+ 4.0%
NZ Listed Property	Nil Exposure	- 2.6%

* Returns are derived from market benchmarks and are before tax or costs.