

Brook Professional KiwiSaver Scheme

Issue 2, 2009

Market Overview - period ended 30 September 2009



Investors will long remember 2009 for the rebound in global equity markets as confidence increased in a global economic recovery.

Business and consumer confidence improved markedly and both the Australian and US companies earnings results were ahead of expectations, with management outlook statements cautiously optimistic. We saw an improvement in the US housing market with increases in the closely watched Case-Shiller Index of house prices over three consecutive months.

Closer to home GDP data released in the September quarter confirmed that the Australian economy recovered slightly in the June quarter and is one of the few nations to avoid a recession, with only one quarter of negative growth during the global financial crisis. The consumer sector has been particularly strong (helped along by stimulatory monetary and fiscal policy) to the point where the Reserve Bank of Australia was preparing to raise interest rates by the end of the quarter.

The Reserve Bank of New Zealand appears committed to maintaining stimulatory conditions despite the improving outlook and stated that they expect to keep the OCR at or below the current level through until the latter part of 2010.

Market Outlook

A low interest rate environment and incrementally positive economic data is typically supportive of equity markets. However following the recent strong performance of global equity markets, some caution is appropriate. We will be looking for evidence of revenue growth from US companies as well as comments from policy-makers as these factors will have a bearing on the speed and shape of the recovery. Governments and central banks are faced with the delicate task of withdrawing the economic stimulus introduced over the past 18 months and this will be a process that is not without risks.

Portfolio Activity

Over the last six months a number of changes have been made to the portfolio. James Hardie Industries was added after an extensive research trip to the US. The company has performed strongly through the downturn and product innovation continues to strengthen their position. Rakon came to the market to raise capital for a Chinese manufacturing joint venture and Brook took this opportunity to add Rakon to the portfolio. In the International Equity asset class, Amphenol, the second largest manufacturer of electronic and fibre optic connectors was added on the grounds that its consolidation programme is likely to increase profit margins. Nike, a household name in many parts of the world, was added due to the high growth opportunities it has positioned itself in rapidly growing economies. Nintendo and Petrobras have also been added to the portfolio due to their expansion strategies at a time when their competitors are perceived to have taken their eyes off the ball. The portfolio's holdings in Honda were reduced following its recent strong share price performance.

Brook KiwiSaver Performance* (6 months to 30 September 2009)

The Growth Fund	Performance	Benchmark
Six months	11.93%	29.64%
One year	4.73%	-3.32%
Two years	2.68%	-15.91%

The Balanced Fund	Performance	Benchmark
Six months	6.69%	17.36%
One year	2.88%	-0.07%
Two years	3.25%	-7.33%

*Performance numbers are Gross of Tax and Net of Fees.

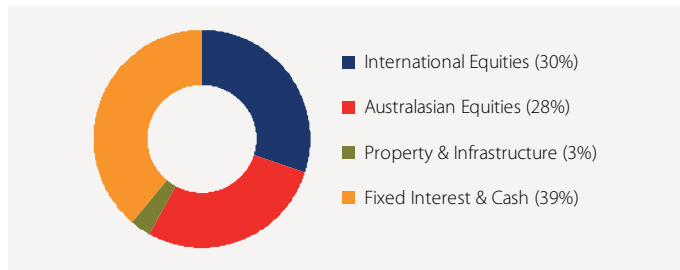
Global Indices Performance (6 months to 30 September 2009)

NZX50	22.03%
S&P/ASX200	35.21%
FTSE	30.76%
S&P 500	32.49%
HK Hang Seng	54.35%
Nikkei 225	24.95%

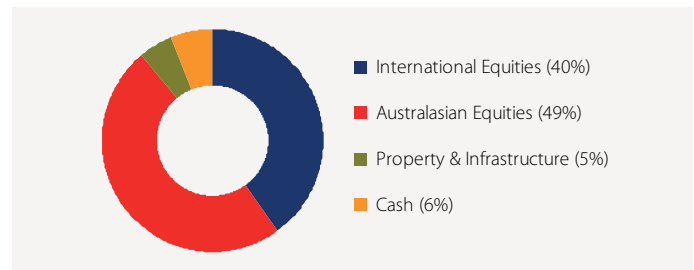
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Sector Allocation - Balanced Fund



Sector Allocation - Growth Fund



Our Thinking...

How do investment strategies differ?

"Never invest in any idea you can't illustrate with a crayon" - Peter Lynch, Beating the Street

Investment strategy plays an important part in KiwiSaver. The type of strategy used will determine what securities are included in a portfolio and how that changes over time.

Not only can the type of investment strategy have a significant bearing on the outcomes for investors, it can play a big role in influencing whether an investor sticks with a strategy through market cycles.

Two of the major aspects to consider are:

Active/Passive

The first dimension to consider is the degree of active management. Passive strategies aim to minimise costs and eliminate the risk of underperforming the market. Active strategies attempt to build superior portfolios based on in-depth analysis. Brook believes that an active process can achieve the best results in the long term.

Contrarian/Momentum

The second dimension to consider is the degree to which a strategy is contrarian or momentum driven. In the sharemarket this is often described as growth versus value. Put simply, a growth manager looks for earnings growth to be maintained and to justify higher share prices while a value manager looks for prices that are attractive even if earnings don't grow. Brook believes in a fundamental value-driven process.

It is important that investors find strategies that they understand and feel comfortable with as the ability to stick with a strategy through market cycles will play a big role in successful investment. Most important is that investors find strategies that they understand and feel comfortable with.

KiwiSaver Scheme Update

KiwiSaver continues to grow in importance with over 1.1 million members enrolled as at 30 September 2009. Brook has every expectation that this trend will continue and KiwiSaver will become a significant part of the retirement savings for all New Zealanders.

Morningstar have once again reaffirmed **Brook's investment process** in their KiwiSaver performance survey where the Growth Fund ranked first in the aggressive growth category over two years and the Balanced Fund ranked second in the balanced category over two years.

Unit Prices

To assist in following your KiwiSaver performance we update the KiwiSaver unit prices regularly on our website:

www.brook.co.nz

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