

Fund manager

Tyndall Investment Management New Zealand Limited (Tyndall).

Tyndall manages \$3.4 billion of funds for a diverse group of clients, including superannuation schemes, charitable trusts, KiwiSaver scheme providers, corporations and local government. Tyndall also offers services to financial intermediaries through wrap platforms. Tyndall is a wholly owned subsidiary of Nikko Asset Management Co., Ltd., a Japanese asset management group.

Tyndall offers investment management services in domestic sectors (equities, fixed interest and cash) through its Auckland-based investment team and employs offshore managers to manage global sectors (global equities, global bonds and alternative investments).

Portfolio Managers

Rickey Ward, Joint Domestic Equity Manager – 15 years tenure. Rickey joined Tyndall in April 1996, initially as an Equity Analyst and the Manager of the company's passive investment products, before being promoted to the more senior role of Domestic Equity Dealer in 1998. He has been involved within the investment industry for almost two decades in a variety of roles ranging from strategy, research and portfolio management. He is now the Joint Equity Manager, a role which he was promoted to in May 2001.

James Lindsay, Joint Domestic Equity Manager – 13 years tenure. James had a number of years experience in sharebroking prior to becoming an Australasian Equity Analyst at Royal & SunAlliance Asset Management in Wellington. He joined the Auckland based Tyndall team in 1999 as an Equity Analyst, before being promoted to the role of Joint Equity Manager in May 2001.

Fund launch

August 2006 (a similar portfolio has been operated by Tyndall since 1998).

Investment objective

To outperform the RBNZ Official Cash Rate over a rolling three year period by 5% per annum before management fees by investing primarily in New Zealand and Australian listed equities.

Benchmark

RBNZ Official Cash Rate plus 5% per annum

Investment philosophy

The Fund is a collection of Tyndall's domestic equity managers' highest conviction investment ideas to achieve capital appreciation.

The Fund's equity investments are not constrained by size, style, sector or index composition. That is, the Fund includes New Zealand and Australian equities:

- of all sizes: large, medium and emerging equities;
- with a blend of growth and value style investments;
- not overly focused on any specific sector; and
- that are not influenced by any index composition.

Structure and taxation

The Fund vehicle is a Unit Trust and Portfolio Investment Entity (PIE) which is priced daily. Unit holders elect their own Portfolio Investment Rate. Information is provided to the IRD and unit holders on an annual basis.

PIE eligibility

Tyndall may take any action it deems appropriate to ensure the Fund remains eligible to be a PIE. This includes the ability of Tyndall to compulsorily withdraw a unit holder's units and pay the proceeds to that unit holder's nominated bank account.

Distributions

Semi-annual. Last business days of March and September.

Hedging policy

Assets and liabilities are hedged to NZD at the discretion of the Manager.

Investment guidelines

Below are the investment ranges for the asset classes in which the Fund will primarily invest.

Asset class	Target weight	Range
Cash & Debt Securities	0%	0% – 100%
New Zealand & Australian Equities	100%	-20% – 120%
Foreign Currency	0%	0% – 100%

The Fund may also hold fixed interest, cash and forward foreign exchange contracts in New Zealand and Australia. The Fund may borrow up to 20% of its Gross Asset Value. In addition, securities of up to 20% of the Gross Asset Value of the Fund may be borrowed and secured against the assets of the Fund including for the purposes of taking short positions.

Management fees and other charges

A management fee of 1.00% per annum calculated as a percentage of the gross asset value of the Fund will be calculated and deducted from the Fund. This fee is calculated daily and is payable to Tyndall. The management fee may be reduced or waived at Tyndall's discretion.

A Trustee fee of up to 0.06% per annum calculated as a percentage of the gross value of the assets in the Fund will be calculated and chargeable to the Fund.

Tyndall and the Trustee may recover expenses (including the Trustee fee) up to a maximum of 0.25% per annum from the Fund.

Performance fee

A performance fee is payable to Tyndall of an amount not exceeding 10% per annum of gains over and above the benchmark return (outperformance of the RBNZ Official Cash Rate over a 12 month period by 5% per annum after fees). The performance fee is calculated after allowance for a management fee, the Trustee's fee or custodial fees and other costs and expenses recovered by the Fund. Capital losses from any previous periods must be recovered before payment of any performance fee for a subsequent period.

Brokerage charges

0.40%

Trustee

Public Trust

Custodian

Public Trust

Minimum investment

Initial investment \$5,000

Further investments \$1,000

The Manager may accept applications for investments below the minimum investment amount at its discretion.

Performance (NZD returns; before tax & fees)

	Tyndall %	Benchmark %	Excess %	NZX50 %	Excess vs NZX50 %
1 mth	3.26	0.62	2.64	0.66	2.60
3 mths	0.15	1.84	-1.69	-0.95	1.10
6 mths	-1.60	3.71	-5.31	-2.08	0.48
1 yr	-3.53	7.55	-11.08	0.18	-3.71
2 yrs (pa)	0.58	7.67	-7.09	3.42	-2.84
3 yrs (pa)	9.25	7.67	1.58	7.32	1.93
5 yrs (pa)	3.10	9.70	-6.60	-3.07	6.17

Benchmark: RBNZ Official Cash Rate Plus 5% pa

Fund size

Fund: \$8.3 million

Strategy: \$131 million

Contributors to performance – January 2012

What helped	What hurt
Rio Tinto Limited	GPG plc
Fletcher Building	Sky Network TV Ltd
Chorus Limited	Kathmandu Holdings

Top five holdings

Security	Sector
Chorus Limited	Telecommunications
Rio Tinto Limited	Materials
Fletcher Building	Materials
News Corporation	Consumer Discretionary
Transpacific Industries	Industrials

Number of holdings in portfolio **14**

Asset allocation

New Zealand equities	54.0%
Australian equities	37.7%
Cash	8.3%

Commentary

With a concerted global monetary policy response now in place and some positive snippets of news from within the EU, risk assets performed well in January. In local currency terms, the All Ordinaries (+5.2%) outperformed the US S&P 500 (+4.4%) and the World MSCI ex Australia Index (+4.8%) and while the New Zealand market enjoyed the flow on effect of global markets, it rose only 0.66% for the month, as measured by the NZX50 Index.

The NZD appreciated 2.1% against the AUD over the month. The portfolio remains fully hedged against the AUD; therefore the AUD positions when measured in NZD had little impact on performance.

Corporate news flow started the year poorly with a number of downgrades from stocks including New Zealand Refining (NZR) issuing its second profit downgrade in five weeks, Sanford (SAN) highlighting flat 1Q revenue at its AGM and **New Zealand Oil & Gas** (NZO) impairing its outstanding Pike River Coal loans. **Fletcher Building** (FBU) announced the purchase of the remaining 50% shareholding in Plattenwerk (a German manufacturer and distributor of metal and specialty laminates) it did not already own for NZ\$48m.

Most measures of economic activity continued to point to a slowdown in business conditions both here and in Australia similar to data seen for the last quarter of 2011. The NZIER Quarterly Survey of Business Opinion for 4Q11 showed a net 3% of firms pessimistic towards the economy's prospects over the next six months, down from a net 13% optimistic in 3Q11. Furthermore, the survey pointed to patchy economic momentum, particularly outside of Canterbury.

The Fund performed strongly over the month of January rising 3.3%, well ahead of the NZX index. This was aided by the solid position in **Rio Tinto** (RIO) which rose 14.7% (in AUD terms) over the month, **Chorus** (CNU) which was up 4.5% and **Summerset** (SUM) which rose 6.7%. Over the month the managers sold the Fund's holding in Echo Entertainment (EGP) and Nuplex (NPX) while **Kathmandu** (KMD) and **Infratil** (IFT) were in the process of being divested.

(bold denotes stock held in portfolio)

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