OnePath Mortgages and OnePath Income Plus Funds update

SEPTEMBER 2014

The following update is for investors invested in the OnePath Mortgages and / or OnePath Income Plus funds and explains what we are doing to prudently manage these funds for investors.

A recap

In late 2008, due to events associated with the Global Financial Crisis ('the GFC'), transactions were suspended in the OnePath Mortgages and OnePath Income Plus funds ('the Funds') and the Mortgage Pool (the underlying fund).

Since this time, we have continued to prudently manage these Funds, resulting in the delivery of an ongoing investment return and, where possible, the return of capital to investors on a regular basis.

Since 2011 we have been able to return capital on a pro- rata basis to all investors of $1.2 billion, representing the return of approximately 90% of capital.

Key points

- Approximately 90% of capital has been returned to investors as at July 2014.
- We have been actively and prudently managing assets with an objective of preserving capital and returning any available capital to investors over time.
- Further capital is expected to be returned to investors for the September 2014 quarter.
- Remaining loans in the underlying mortgage portfolio are due to mature in 2015.
- A recent review determined that provisions put aside for court actions should now be incorporated in the unit price of the Funds.

Why were the Mortgage Pool and the Funds suspended? Why do they remain suspended, and what's the latest on their status?

Why the Funds were suspended in 2008

In late 2008 the Funds were suspended in response to events that occurred as a result of the GFC. One of the more significant events included the Federal Government's decision to provide an unlimited guarantee on bank deposits which resulted in unprecedented levels of withdrawals across the mortgage fund sector. Basically, investors felt that in such uncertain times their investment was 'safer' in a bank account - unfortunately the Government did not anticipate that the flow on effect would cause such a dramatic increase in withdrawal requests from 'other' investment funds such as mortgage funds. This was coupled with a drop in commercial property values in Australia.

To protect the interests of all investors, we made the difficult but necessary decision to suspend withdrawals from, and investments into, the Funds. Suspending the Funds meant we have been able to maximise the value of our customer's existing investments and most importantly to ensure any available monies could be released equitably, to all investors over time.

Why the Funds continue to be suspended

The suspension continues due to the nature of the underlying investments - which include mortgages over property. As mortgages are not tradable on markets (like shares) they need to be held until they reach maturity, are repaid early by the borrower, or in the case of defaulting mortgages, the secured assets are realised in a commercial manner.

How we are managing the Funds and the Mortgage Pool

We continue to manage the Mortgage Pool and the Funds with the aim of maximising monthly income, and protecting investor capital while releasing available liquidity.

OnePath has both a legislative and fiduciary obligation to act in the best interests of investors in each Fund. We take this duty extremely seriously and have a comprehensive process in place to assess the strategy of the Funds and the quality of assets held.

An update on recent events

The need to provision for court actions

Where a borrower has defaulted on their obligations the Fund will appoint receivers to realise secured assets and pursue guarantors. In some circumstances disputes can arise regarding the ownership of the assets and enforcement of obligations. This can lead to the Funds incurring legal costs to recover and resolve disputes.

Incorporation of provisions into the Funds' unit price

As the Funds have returned a large amount of the capital, the responsible entity of the underlying fund has determined that provisions made for legal costs in court actions such as those mentioned above should now be reflected in the unit price. These provisions ensure that the responsible entity can continue to pursue legal actions on behalf of investors. The unit prices of the Funds have therefore been adjusted to incorporate these provisions.

Unit price impacts

The reduction in unit price varies depending on the individual Fund and whether the Fund is offered through an investment, superannuation or pension product. Provided below are some examples of unit price impacts.

- Investors in the ANZ OneAnswer Investment Portfolio - OnePath Mortgage Trust will see a reduction in their current unit price from $0.07 to approximately $0.057. Similar unit price changes will apply to other retail mortgage trusts, e.g. ANZ Mortgage Fund (Series 1 and 2).
- Whilst the unit price in the ANZ OneAnswer Investment Portfolio - OnePath Income Plus Trust can fluctuate daily, investors will see a reduction in their current unit price in the order of $0.062 to $0.055[#] (based on the unit price effective mid-August).

Please note the above examples relate to the managed investment schemes offered by OnePath, i.e. non-superannuation products. Unit prices for all of the Funds can be viewed on our website at anz.com>Personal>Investing & Super>Resources.

[#] This is an estimate. The unit price of the OnePath Income Plus Trust fluctuates daily due to movements in the value of securities held in cash, Australian shares and property. Therefore the change in account balance may not be obvious to investors, and may differ from the estimate provided, as it will depend on what the market movement experience is like in the other asset classes.

When is the unit price reduction effective?

The unit price reduction is expected to occur in early September 2014.

What does this mean for you?

Investors will see the value of their investment in the Funds reduce due to the lower unit price being applied to their current unit holdings.

For example, if an investor holds 1,000 units in the OnePath Mortgage Trust then the value of their investment will fall from $70 to $57 (this is based on the unit price falling from $0.07 to $0.057).

How will this impact the performance of the Funds?

Because the unit prices have reduced there is an impact on the performance of the Funds.

Since the suspension of the Funds, in fact since the inception of the Funds, the unit price reduction of 1.3 cents (in the case of the retail mortgage trusts) represents a negative performance return of 1.3% (1.3 cents as a proportion of the initial unit price of $1.00).

For an investor who has been invested from the time of the suspension, which occurred in October 2008 (more than 5 years), then the performance impact of the unit price reduction is 1.3% annualised over 5 years which equates to a negative performance of 0.26% p.a. This is shown in the example below.

Time period	Performance impact of recent unit price reduction of 1.3%
Over 3 years	0.43% p.a.
Over 5 years	0.26% p.a.
Since inception (May 2003[#])	0.12% p.a.

[#] Inception date of ANZ OneAnswer Investment Portfolio - OnePath Mortgage Trust.

When we look at short term performance returns we can see that the impact of the unit price reduction is much larger than noted above. Please refer to the following table. This is because the current Fund size is much smaller now due to the returning of capital over the past 3 years. The impact of the unit price reduction as a portion of the current unit price is more than 18% when we look at OnePath Mortgage Trust (i.e. 1.3 cents as a portion of 7 cents).

Investors should note that the reduction of more than 18% only applies to the remaining balance held in the Funds which is less than 10% of the initial balance.

The estimated performance returns shown in the table below reflect the impact of the unit price reduction as a portion of the smaller Fund size and are therefore not necessarily in line with investor experiences over these periods.

Estimated performance returns post unit price adjustment (based on returns to 31 July 2014)[#]

Estimated return	1 Month	3 Months	1 Year	3 Years	5 Years	7 Years
OnePath Mortgage Trust (offered through ANZ OneAnswer Investment Portfolio)	-18.40%	-12.78%	-10.37%	-2.09% p.a.	-0.65% p.a.	1.00% p.a.
ANZ OneAnswer Personal Super – OnePath Mortgages (Entry Fee option)	-13.48%	-13.02%	-11.08%	-2.59% p.a.	-1.18% p.a.	0.36% p.a.
ANZ OneAnswer Pension OnePath Mortgages (Entry Fee option)	-15.01%	-14.49%	-12.38%	-2.90% p.a.	-1.31% p.a.	0.46% p.a.

[#] The above are actual performance returns to 31 July 2014 to which an overlay has been applied to account for the expected Net Asset Value reduction, and subsequent unit price reduction. These performance returns are therefore an **estimate** of the actual returns which will apply following the unit price reduction. These performance returns are being provided to give an indication of the impact of the unit price reductions of the performance of the Funds. These performance returns may be different to the actual returns applicable following the processing of the unit price reduction. These returns are net of fees and taxes and assume reinvestment of income.

Which products are impacted by the unit price reductions?

The funds impacted are the OnePath Mortgages and OnePath Income Plus Funds.

These Funds are offered through:

- ANZ OneAnswer Personal Super and Pension suite of products as well as OneAnswer Frontier;
- ANZ OneAnswer Investment Portfolio, including the following investment funds:
  - OnePath Mortgage Trust ARSN 104 469 427
  - OnePath Income Plus Trust ARSN 104 468 573
  - ANZ Mortgage Fund (Series 1 and 2) ARSN 090 385 167
- Employer super products (Corporate Super, ANZ Super Advantage and Integra Super).

What is the nature of the court actions for which we are provisioning?

So as not to negatively influence or prejudice the proceedings and potential outcome of the court actions, and for confidentiality reasons, we cannot provide further detail on these matters at this time.

Why does this provisioning lead to a unit price reduction?

In some cases we make provisions from the income of the Funds. However, in this case due to the nature of the provisions and their tax treatment, the value of the provisions must be taken from capital, that is, from the net asset value of the Funds.

Where is the provisioned capital invested?

The provisioned capital is still held within the Mortgage Pool accounts and will be invested in interest bearing assets, such as cash and bank deposits. The provisioned capital is expected to generate income, which the investors will be entitled to receive, through income distributions.

Is there a possibility that the provision may not be needed in the future?

If the court actions are resolved favourably then some of the provision may be returned to the Mortgage Pool and the Funds and consequently the unit price would increase. While investors should not expect this to occur, it is, however, a possibility. In addition we may recover additional amounts from guarantors that may be passed back to investors if this eventuates.

Are there any other unit price changes expected in relation to the provisions in the future?

There may be more unit price movements (either up or down) in the future as a result of the provisions and ongoing actions. This may be due to the provisioned amounts being realised by the Mortgage Pool. This is standard accounting practice.

What loans are left in the portfolio and when will these mature?

There are five loans remaining in the Mortgage Pool portfolio. All are due to mature (and expected to be repaid) early to mid-2015.

When can investors expect to have their remaining capital repaid?

If the last loan is repaid by mid-2015 as expected, then we anticipate that at that point we will be able to communicate to investors our intention in relation to the future of the Funds.

Will there be further return of capital payments in coming quarters?

We expect to make a return of capital payment following the September 2014 quarter. We will confirm this during late September 2014.

At this stage we cannot confirm whether there will be a return of capital payment following the December 2014 quarter.

Can small balance investors be paid out early?

We appreciate your patience in this situation and we understand any frustration with the time taken to return capital to investors. Whilst we are pleased that we have been able to repay the majority of capital to all investors (approximately 90%), over the past three years, we also understand that we have a large number of clients with only small balances remaining in the Funds.

Our legal and fiduciary obligations mean that we are required to treat all investors equally and must remain focussed on the prudent management of remaining assets on that basis. At this stage we are not able to offer a full redemption to any investors, including small balance investors, other than in exceptional cases of hardship which meet the specific criteria prescribed by the Australian Securities & Investments Commission (ASIC).

What you need to do?

At this stage nothing. We will communicate to you regularly or as required to update you on the progress of the ongoing management of these investments.

Any questions?

If you have any questions or require further information, please:

- speak with your financial adviser
- call Customer Services on 13 38 63 weekdays between 8.30am and 6.30pm (AEST)
- email us at customer@onepath.com.au
- visit our website anz.com