Performance update - OnePath Mortgages and Income Plus funds

INVESTMENT CLIENTS| JULY 2012

Summary of information

- Release of capital for June 2012 quarter was 17% of client balances.
- Total capital released through our quarterly capital distribution process to date is approximately 66% of account balances, since introduced in March 2011.
- A significant portion of remaining capital will be returned within the next 12 months.
- Mortgage portfolio performance has been impacted by the economic environment and a difficult commercial property market.

Release of capital – June 2012 quarter

In early 2011, we communicated our new and easier approach to releasing available money from the suspended OnePath Mortgages and Income Plus funds (the Funds) to investors. In accordance with that communication, we are returning the balance of any available monies to all investors on a pro rata basis after the end of each quarter. Payments are being made during July, October, January and April.

We are pleased to confirm we have been able to release a significant amount of capital (approximately 17% of your balance in the Funds) for the June 2012 quarter. This release of capital is the result of a number of loans being repaid within the Mortgage portfolio. Further details on the Fund's current performance are outlined below.

This payment of 17% of your balance in the Funds was made on 10 July 2012 (to your bank account or by cheque if you have not provided a bank account). This payment will be reflected in your September quarter transaction statement in the Distributions section.

As the release of capital is processed as a distribution from the Funds, the unit price will be reduced to reflect this payment. The number of units you hold does not change.

Underlying mortgage portfolio performance during June 2012 quarter

As mentioned above, we have been able to release a large amount of your balance in the Funds because a number of loans within the portfolio have been repaid.

However, while some loans have been repaid and other loans are performing well, there are a small number of loans experiencing difficulties. We have been making provisions over the course of the financial year to 30 June 2012 to protect against losses from these loans. However, we have recently completed a comprehensive review of all loans and as a result we have had to further write down the value of a small number of loans. These write downs are a direct result of the economic environment and a difficult commercial property market.

These write downs have impacted income returns during the June quarter and will result in capital values (and therefore unit prices) falling slightly during July. This is explained below.

Income distributions during June 2012 quarter

While all clients will have received a large capital payment of 17% during July, monthly income distributions during the June quarter were low or zero. This is because loan write downs are offset against Fund income, and in many cases the write downs were greater than the income earned during these months.

- For the ANZ OneAnswer OnePath Mortgage Trust we were not able to distribute any income for the months of April, May and June 2012.
- For the ANZ Mortgage Fund (Series 1 and 2) we were not able to distribute any income for the June 2012 quarter.
- For the ANZ OneAnswer OnePath Income Plus Trust the monthly income distributions were very low during the June quarter.

Capital reduction in July 2012

The loan write downs have resulted in a small reduction in the value of the assets held by the mortgage portfolio and subsequently a small reduction in the unit price of the Funds, effective 5 July 2012. This has occurred because the loan losses exceeded Fund income and therefore had to be offset against capital.

- For the ANZ OneAnswer OnePath Mortgage Trust and ANZ Mortgage Fund (Series 1 and 2) the unit prices were reduced by approximately 3.6%.
- For the ANZ OneAnswer OnePath Income Plus Trust the impact was lower at approximately 1.78%, as this Fund holds only 50% of its investments in the Mortgage portfolio.

Your assessable income will be reduced as a result of the loan write downs

Your assessable income for the financial year ended 30 June 2012 will be reduced as a result of the loan write downs. This is due to the fact that loan losses are offset against the Funds' income.

When you receive your Consolidated Tax Statement towards the end of August 2012 you will see that a large portion of income distributed from the Funds (in some cases all income) is classified as 'Tax Deferred'. When income has a 'Tax Deferred' status this means there is no tax to pay now.

In future when your units are sold down there may be a tax liability associated with the 'Tax Deferred' amount. However the unit price reduction due to the loan losses will offset, at least in part, this future liability.

How the unit price is impacted (inclusive of capital release and write downs)

The unit prices of the Funds reduced effective 5 July 2012 as a result of the return of capital of 17% and the loan write downs. The combined impact is as follows:

- The unit prices for the ANZ OneAnswer OnePath Mortgage Trust and ANZ Mortgage Fund (Series 1 and 2) are now $0.30, down by 8 cents from the previous price of $0.38 (6.64 cents relates to the release of capital and 1.36 cents relates to the loan losses).
- The unit price for the ANZ OneAnswer OnePath Income Plus Trust changes daily, as underlying investments in Australian shares and property fluctuate daily. Effective 5 July 2012 the unit price was $0.27833.

The September 2012 quarterly transaction statement will reflect the revised unit prices and account balances.

Future quarterly payments and outlook for the Funds

OnePath continues to prudently manage the Funds to preserve capital and to release as much liquidity to investors as possible on a quarterly basis.

As we have previously advised we are no longer writing new loans and as existing loans reach maturity we are asking borrowers to repay their loan (in some cases they are repaying early). As loans are repaid we are passing this capital on to investors through our quarterly return process.

Given the maturity profile of loans remaining in the portfolio we expect that a significant portion of these loans will be repaid and available capital returned to investors within the next 12 months (i.e. by July 2013).

The performance of the Funds over the coming 12 months will be dependent on economic conditions and commercial property market valuations.