

Update July 2011 - OnePath Mortgages and OnePath Income Plus funds

Investment clients

Return of capital for June 2011 quarter

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

We are pleased to confirm we have been able to release a significant amount of capital (approximately 19% of your balance in the Funds) for the June 2011 quarter. This is much higher than the previous quarter of 7-8%. This larger 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.

Underlying mortgage portfolio performance

As mentioned above, we have been able to release a larger amount of capital this quarter because of a significant number of loans within the portfolio being repaid at their maturity date. However, while many loans have been repaid, we have had to write down the value of a small number of loans during the month of June.

As a result of the difficult economic environment in 2009, triggered by the global financial crisis, and the subsequent drop in commercial property values in Australia, the mortgage portfolio has seen an increase in loans experiencing difficulties. This has been the case across the mortgage fund industry.

We have been setting aside income each month to account for potential loan losses however in the month of June a comprehensive analysis of loans (always a requirement prior to the financial year ending 30 June) was performed in conjunction with the fund auditors. This review led to the write down of some loan values. The write down amount was larger than the amount provisioned throughout the year.

Impact on income distributions in June 2011

So, while all clients will have received a large capital payment of 19% during July, we were not able to distribute income for the month of June 2011. This is because loan write downs are offset against Fund income, and the losses were greater than the income earned in the June period. The exception was the ING Monthly Income Trust which made a distribution in June as this Fund has an income guarantee.

Unit price movements in July 2011

During July 2011 there were movements in the Funds' unit prices as a result of the above mentioned circumstances.

Firstly as a result of the return of capital of 19% the unit prices were reduced by the same amount that was paid out to investors. For the OnePath Mortgage Trusts this represented 17.5 cents per unit (unit price change was effective 19 July 2011). For OnePath Income Plus this represented 14 cents per unit (unit price change was effective 1 July 2011).

Secondly as a result of the loan write downs the unit prices were reduced on 19 July 2011. It is important to note that there will be a corresponding reduction in clients' assessable income for the financial year ended 30 June 2011 due to the fact that write downs are tax deductible in the Funds. The unit price impacts were:

- For the OnePath Mortgage Trusts (including OnePath Mortgage Trust No.2, OnePath Monthly Income Trust and OnePath AJ Mortgage Fund) the unit prices were reduced by 3% (2.5 cents per unit).
- For OnePath Income Plus the impact was lower at 1.23%, as this fund holds only 50% of its investments in the Mortgage portfolio.

The unit price effective 19 July 2011 for the OnePath Mortgage Trusts is \$0.72. The unit price for OnePath Income Plus changes daily however effective 19 July 2011 the unit price was \$0.5922.

What impact do the loan losses have on clients' taxable income?

Clients' assessable income for the financial year ended 30 June 2011 will be reduced as a result of the loan losses. This is due to the fact that loan losses are tax deductible to the Funds.

When clients receive their Consolidated Tax Statement towards the end of August 2011 they will see that a large portion of income distributed from the Funds throughout the year is classified as 'Tax Deferred'. When income has a 'Tax Deferred' status this means there is no tax to pay now.

In future when the 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. We cannot determine at this time whether any further tax liability will apply. This can only be determined when the units are actually sold down. In the event that withdrawals are not offered, this will be determined upon finalisation of the Funds.

Future quarterly payments and outlook for the Fund

Since March 2011 we have returned 27% of capital to investors and going forward we expect to make more capital payments on a quarterly basis.

OnePath continues to prudently manage the Funds to maintain capital and to release as much liquidity to investors as possible on a quarterly basis. We estimate that we will be able to pay a further significant proportion of capital for the September quarter, as more loans are repaid.

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