

Update July 2012 – OnePath Mortgages and Income Plus funds (Funds)

Superannuation and Pension clients

Summary of information

- Release of capital for June 2012 quarter was 17% of client balances.
- Total capital released through quarterly process is 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 for June 2012 quarter

We are pleased to confirm that for the June 2012 quarter we have been able to release approximately 17% of your balance in the Funds (this was processed during the week commencing 16 July 2012). This release of capital is the result of a number of loans being repaid.

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.

The loan write downs 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:

- For the OnePath Superannuation products (including OneAnswer) the unit prices reduced by 3.15% for OnePath Mortgages fund and 1.52% for the OnePath Income Plus fund.
- For the OnePath Pension products (including OneAnswer) the unit price reduced by 3.49% for OnePath Mortgages fund and 1.72% for the OnePath Income Plus fund.

The OnePath Income Plus fund invests only 50% of its assets in the mortgage portfolio and hence the unit price impact was lower.

Future quarterly payments and outlook for the Fund

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.

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