

## Wind up of AXA's mortgage funds

As part of the work to bring AXA and AMP together, we are undertaking a comprehensive review of our investment products. One of the outcomes of this review is the decision to wind up the following AXA mortgage funds and return capital to investors:

- Australian Income Fund (AIF) (NML0010AU)
- Australian Monthly Income Fund (AMIF) (NML0317AU)
- Wholesale Australian Income Fund (WAIF) (NML0257AU), and
- Wholesale Australian Monthly Income Fund (WAMIF) (NML0316AU).

### Background to wind up

Since we changed the withdrawal arrangements for AXA's mortgage funds in December 2008, we have made quarterly withdrawal offers available to investors in an effort to meet their liquidity needs.

Throughout this time, we have been working to find a solution that meets the liquidity requirements of investors and complements the nature of the funds' underlying assets. However, taking into account the above issues as well as shifts in market demand and the most equitable methods to return capital, it has been decided it is in the best interests of investors to wind up these funds.

### Wind up process

We intend to make capital repayments to investors every quarter based on each fund's available cash, asset sales and the timing of mortgage maturities in the portfolios. We will commence the wind-up process on 3 October 2011 and expect to complete the capital repayment process by mid 2014. The first capital repayment will be made in December 2011. We expect the first repayment to be at least 7.5% of the FUM for AMIF and WAMIF, and 10% of the FUM for AIF and WAIF.

In addition to these regular capital repayments, clients will continue receiving income distributions throughout the wind up process.

Please note, the decision to wind up the funds means that Withdrawal Offer #12, which was due to open 24 October 2011, has now been cancelled.

### Communication to clients

On 6 September 2011, we will send direct investors in each of the funds a one-off letter to announce the termination and capital repayment process. A copy of this letter is attached to this bulletin.

We will continue to keep clients updated at [axa.com.au/investment](http://axa.com.au/investment) Changes to AXA's property and mortgage funds, including our expected capital payment schedule.

# AXA Research Bulletin

5 September 2011



## Fund update

While the funds are winding up, we will continue to actively manage the assets in the best interests of unit holders.

The fundamentals of AMIF<sup>1</sup> also remain strong:

- all loans have been secured by first-ranking mortgages and there are no related party loans
- the fund does not have borrowings or a line of credit
- there are no loans in arrears (at 31 July 2011), and
- it lends to a wide range of diversified borrowers to shield the funds from concentration risk.

## More information

To help you answer questions from your clients, we've developed some frequently asked questions that have been attached to this Bulletin. If you have any further questions, please contact your AXA Relationship Manager or email [axaresearch@axa.com.au](mailto:axaresearch@axa.com.au).

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<sup>1</sup> As WAMIF, AIF and WAIF have a significant investment in AMIF (either directly or indirectly) the circumstances surrounding AMIF also apply to WAMIF, AIF and WAIF.



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# Frequently asked questions /

We have developed these FAQs to help you answer some of the more common questions you may receive in regard to the wind up of AXA's mortgage funds.

## Overview

As work continues to bring AMP and AXA together, we are undertaking a comprehensive review of our investment products. We're focussed on taking the strengths of both companies to deliver a robust and efficient range of investment solutions for you and your clients.

We've now made some important decisions regarding AXA's range of unit trusts, including the decision to wind up AXA's mortgage funds and commence the process of returning capital to investors.

### 1. What products are affected?

The following AXA mortgage funds will be terminated on 3 October 2011 (termination date):

- Australian Income Fund (AIF)
- Australian Monthly Income Fund (AMIF)
- Wholesale Australian Income Fund (WAIF)
- Wholesale Australian Monthly Income Fund (WAMIF).

### 2. What are the reasons for winding up the funds?

Since we changed the withdrawal arrangements for AXA's mortgage funds in December 2008, we have made quarterly Withdrawal Offers available to investors in an effort to meet their liquidity needs.

Throughout this time, we have been working to find a solution that meets the ongoing liquidity requirements of investors and complements the nature of the funds' underlying assets. However, taking into account the above issues as well as shifts in market demand and the most equitable methods to return capital, it has been decided it is in the best interests of investors to wind up these funds.

### 3. Our approach to returning capital to clients

We understand that clients are frustrated that the funds have been closed since 2008 and by the inconvenience of having to submit requests to withdraw during Withdrawal Offer windows. Our return of capital approach will not require the completion of any forms.

Our approach will also help to ensure that all investors have an equal opportunity to receive their proportionate share of the net proceeds, and that these payments are processed in a measured and fair manner out of the cash available in the funds.



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#### **4. What do my clients need to do?**

No action is required as the capital repayment process will take place automatically each quarter. However, you can assist to ensure a smooth and efficient repayment process by encouraging your clients to provide us with their Australian bank account details if they haven't already done so.

We have compiled a list of clients who are yet to submit their bank account details. This list is available for you to review by logging on to [axa.com.au/adviser](http://axa.com.au/adviser).

#### **5. What is the repayment timeline?**

The first capital repayment will be made in December 2011. We expect the first repayment to be at least 7.5% of the funds under management (FUM) for AMIF and WAMIF, and 10% of the FUM for AIF and WAIF.

We intend to make regular capital repayments to investors every quarter based on the funds available cash, asset sales and the timing of mortgage maturities in the portfolios.

Payments will continue until all assets have been converted to cash and the net proceeds paid to investors. We expect to complete the repayment process by mid 2014.

We have taken this longer-term approach in consideration of the maturity profile of the loans held by AMIF.<sup>1</sup> This also recognises that notwithstanding contracted maturity dates, the ability of borrowers to repay their loans as they mature will be dependent on the repayment options available to them.

Our expectation for completion of the repayment process could be impacted if there is a significant deterioration in current property market conditions or further tightening in the availability of debt finance to property owners in Australia.

#### **6. How will clients be paid?**

If investors have already supplied us with their bank account details, all proceeds will be credited directly to this account. If they haven't nominated a bank account, a cheque in the name of the account holder will be sent instead. If your client would like to nominate an Australian bank account or financial institution, we require notification in writing.

For AMIF and AIF clients, capital repayments will be made via the cancellation of units which will be shown as redemptions on the statements clients receive.

#### **7. Will all capital payments be equal?**

No. Each quarterly capital payment will vary according to the funds' cash available from mortgage repayments.

#### **8. Can clients continue to invest into the mortgage funds?**

Existing clients can make additional investments into the funds up to the termination date, 3 October 2011. After this, additional investments will no longer be accepted. This includes investments via a Regular Savings Plan.

#### **9. Will monthly distributions continue to be paid while the funds are winding up?**

Yes – subject to available distributable income, monthly distributions will continue to be paid in the usual way after the funds terminate on 3 October. Please refer to Q10 regarding your investors with reinvestment distribution plans.

However, as the value of your clients' investment in the funds will decrease following each capital repayment, their income distributions will also decrease.

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\*As the Wholesale Australian Monthly Income Fund (WAMIF), Australian Income Fund (AIF) and Wholesale Australian Income Fund (WAIF) have a significant investment in AMIF (either directly or indirectly) the circumstances surrounding AMIF also apply to WAMIF, AIF and WAIF.

## 10. Can clients continue to reinvest their distributions?

From 3 October 2011, the reinvestment of income distributions will no longer be accepted. This is because new units cannot be issued once the funds are terminated. Clients with distribution reinvestment plans are encouraged to nominate an Australian bank or financial institution account so that we can credit their distribution payments to their bank account instead.

## 11. Is Withdrawal Offer #12 still going ahead?

Withdrawal Offer #12, which was due to open 24 October 2011 and close 2 December 2011, has been cancelled following the decision to wind up our mortgage funds. The first capital repayment due in December will be made in place of Withdrawal Offer #12.

## 12. Do minimum repayment amounts apply to clients with small balances?

No – minimums do not apply during a wind up situation. This is to ensure that all investors are treated equally and consistently.

## 13. Which of my clients are affected?

You can easily identify which of your clients hold these funds in their portfolios by logging onto [axa.com.au/adviser](http://axa.com.au/adviser) and downloading your personalised ad hoc client listing.

## 14. What communications are going to be sent to clients to inform them of the terminations?

Direct investors in the mortgage funds will receive the following communication:

Communications	Mail out date
A one-off letter to inform them of the termination and the wind up process.	6 September 2011

We will also continue to keep you and your clients up to date via our website regarding the wind up process, including any expected change to payment frequencies, payment amounts or any other important pieces of information regarding the funds. Go to [axa.com.au](http://axa.com.au) > **investments** > **changes to AXA's property and mortgage funds**.

## 15. Is there any update on the funds?

While the fund is winding up, we will continue to actively manage the assets in the best interests of all unit holders. The fundamentals of the Australian Monthly Income Fund (AMIF)\* remain stable:

- all loans have been secured by first-ranking mortgages and there are no related party loans
- the fund does not have borrowings or a line of credit
- there are no loans in arrears (at 31 July 2011), and
- it lends to a wide range of diversified borrowers to shield the funds from concentration risk.

\*As the Wholesale Australian Monthly Income Fund (WAMIF), Australian Income Fund (AIF) and Wholesale Australian Income Fund (WAIF) have a significant investment in AMIF (either directly or indirectly) the circumstances surrounding AMIF also apply to WAMIF, AIF and WAIF.

## **16. How does a return of capital work?**

The methods used to return capital to investors will differ between the wholesale and retail mortgage funds.

For the wholesale funds (WAMIF and WAIF), capital will be returned without a cancellation of units. These distributions will result in the unit price falling by the amount of the capital distribution, with the number of units remaining unchanged.

For the retail funds (AMIF and AIF), capital will be returned with a proportionate cancellation of units. This will result in the reduction of the number of units held and the unit price remaining unchanged.

Please note that both of these methods return capital on a pro-rata basis and ensure the equitable treatment of all unit holders.

## **17. Can clients access their funds in circumstances of financial hardship?**

As you are aware, on 31 October 2008, the Australian Securities and Investments Commission (ASIC) introduced measures to facilitate withdrawals for investors from mortgage funds in cases of financial hardship. In line with this direction, we have been able to process payments to investors who have demonstrated that they satisfy the criteria.

However, from 3 October 2011 when the funds go into wind up, we will be unable to process hardship claims.

We are seeking relief from ASIC to once again start accepting withdrawal requests from these funds on the basis of financial hardship, and will update both you and clients on our website of any material changes as soon as they occur.

## **18. Where can I get more information?**

If you have any further questions, please contact your AXA business development representative on **1800 655 65**.

\*As the Wholesale Australian Monthly Income Fund (WAMIF), Australian Income Fund (AIF) and Wholesale Australian Income Fund (WAIF) have a significant investment in AMIF (either directly or indirectly) the circumstances surrounding AMIF also apply to WAMIF, AIF and WAIF.