

# Important update – OnePath Mortgages and Income Plus funds

## July 2011

**During July 2011, we will be returning a significant amount of capital to your clients invested in the OnePath Mortgages and Income Plus funds. Below we outline some information on this process and provide an update on the performance of the underlying portfolio and unit price impacts.**

### Release of capital – June quarter 2011

#### How much will investors receive?

We are pleased to confirm we are able to release a large amount of capital from the underlying mortgage portfolio for the June 2011 quarter. The amount paid from the underlying mortgages portfolio will be 19%. This is significantly higher than the previous quarter of approximately 8%.

This larger release of capital has resulted from a significant number of loans being repaid, and as a result the associated liquidity is being returned to investors.

This means that so far this year we have returned approximately 27% of capital to investors. Going forward we expect to make more capital payments to clients on a quarterly basis. We estimate that we will be able to pay a further significant proportion to clients for the September quarter and will confirm this in October.

#### When and how will the payments be made?

##### Investment Portfolio and other retail trusts

The proceeds will be deposited into clients' nominated bank accounts or paid by cheque if no account details have been provided. Payments will be deposited into clients' accounts on 20 July.

##### Super and Pension

Payments will be processed in late July as a switch into the ANZ Flexible Term Deposit Plus fund or to an alternative investment fund if your client has nominated one (Term Allocated Pension clients will receive their payment into ING Cash).

If clients haven't done so already, they can nominate an alternative fund for future payments at anytime by completing a Return of Capital Standing Instruction Form available at [onpath.com.au](http://onpath.com.au) > Performance & updates > Fund suspensions or by contacting us on 133 665.

Clients are then free to switch the proceeds to an alternative fund(s) of their choice or withdraw, subject to preservation rules and exit fees if they are within an exit fee period.

#### Will clients receive confirmation after the payment?

**Investment Portfolio and retail trusts** - Clients will receive a quarterly transaction statement in early August 2011 that will reflect the payment. Please note that a return of capital from a managed investment scheme is a type of distribution, hence the description on statements will simply be 'Distribution'.

**Super and Pension** - Clients will receive a switch confirmation in early August after the payment has been processed.

## Underlying mortgage portfolio performance

### Loan losses in June 2011

As mentioned, we have been able to pay a larger amount of capital because a significant number of loans have been repaid. However, despite the large amount of loans being repaid at their maturity date we have had to write down the value of a small number of loans. The value of these loan losses represents 3% of assets.

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 loan values. The write down amount is larger than the amount provisioned throughout the year.

### What does this mean for Investment Portfolio and retail trust clients?

#### Distributions for the month of June

While clients will receive a large capital payment of 19% in July 2011, the income available to distribute for the June month is affected by the loan losses as they are offset against income. This means we will not be able to distribute income from the Mortgage and Income Plus funds in the month of June 2011. The exception is the Monthly Income Trust which will make a distribution in June as this trust has an income guarantee.

#### Taxable income for the financial year to 30 June 2011

As loan losses are offset against taxable income and they are larger than income earned in the month of June, they also have an impact on the income distributions paid over the course of the year.

This means we will need to reclassify a large portion of previously distributed income to account for this. The appropriate tax treatment for investors is to reclassify this income as 'Tax Deferred'. This means this income is not assessable in the financial year ending 30 June 2011.

On withdrawal of units the 'Tax Deferred' amount will reduce the tax cost base of the units. This means that in future when the units are sold there may be a tax liability on this amount. This will depend on the value of the units when they are sold.

For this financial year, clients will need to rely on their Consolidated Tax Statement due to be issued in late August. This statement will reflect the reclassification of income and will show what income needs to be declared as taxable in the financial year ended 30 June 2011.

#### Unit price movement in July 2011

The reduction in the asset value of the underlying portfolio (resulting from the write downs) and the fact that income has been paid out over the course of the year means that the unit price of the funds will fall by approximately 3%, effective 19 July 2011.

This means investors will see their account balance fall, however it is important to note that there will be a corresponding reduction in their taxable income.

#### Income Plus fund

The Income Plus fund is 50% invested in the Mortgages portfolio and therefore the impact of loan losses is halved. For these funds the unit price fluctuates with market movement of other assets so the impact of the write downs will not be evident on its own.

### What does this mean for super and pension clients?

The unit price of super and pension products which invest into the Mortgages portfolio will also be reduced by approximately 3% to reflect the impact of the write downs, effective 19 July 2011. Please note, clients will still receive their return of capital payment of 19% via a switch of units.

### How are we communicating with clients?

Unit prices will be published online on 20 July 2011 for all products. Information will be included with quarterly trust statements for Investment Portfolio and other retail trust clients mailed in early August. For Super and Pension clients, an insert will be included with the confirmation of their quarterly payment which will be sent to them in early August.

We look forward to communicating with you again shortly to provide further details of upcoming capital releases from the funds. If you have any questions or would like further information, please contact your OnePath Business Development Manager.

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