

# ADVISER UPDATE

## Fidelity

November 2009

As you are aware, the remaining assets in both the Super Yield Fund ("SYF") and Private Mortgage Fund ("PMF") comprise loans to Fidelity. Fidelity is now focused on a programme of realising and repaying those loans.

We have previously advised that:

1. We expect the realisation of the Fidelity loan portfolio and the subsequent repayment of the Funds' investment in Fidelity to take an extended period of time. While the majority of Fidelity's lending is only medium term in nature the actual timing of loan repayments is very difficult to predict in the current environment. Some loans are requiring extensions and/or additional capital to improve security positions;
2. It is not currently possible to provide a firm repayment timetable, however we would continue to make payments to investors as meaningful interest and/or partial repayments are made by Fidelity to the Funds; and
3. While there was nothing definitive at that stage to suggest that full recovery of the Fidelity investment would not be achieved, the potential for losses, even with the buffer of shareholders' funds, cannot be totally eliminated given current market conditions.

The situation today remains broadly as outlined above.

While some of Fidelity's smaller loans have repaid in August/September, none have been substantial enough to enable a capital repayment to be made back to NZ Funds' Trusts (and their investors) this calendar year. Fidelity continues to be in a position where it must, at times, outlay funds to protect or restructure its security interests in some loans.

The process of asset realisation on most property assets is very slow and the terms sellers can achieve are well below that of recent years. In pursuing the realisation of assets a careful balance is required between achieving sales more quickly on one hand, and obtaining acceptable sale prices such that borrowers are able to pay back both the senior lender and the mezzanine lender (Fidelity) on the other.

Fidelity continues to intensively manage each loan and there is a strategy for each loan which is reviewed by Fidelity's Directors at least fortnightly.

Notwithstanding the challenges, in general terms the property market appears to have stabilised in recent times with transaction levels starting to pick up. The potential for more positive buyer sentiment needs to be balanced against an oversupply of stock which remains in many property segments and locations.

At this stage we expect cash will be available for the next repayment to investors in both SYF and PMF in the first quarter of 2010. A further update will be provided at that time.

If you have any questions please contact David van Schaardenburg.

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