

MAY 2010

The remaining assets in both the Super Yield Fund ("SYF") and the Private Mortgage Fund ("PMF") comprise loans to Fidelity. Repayments to investors in both SYF and PMF were made on 26 March 2010.

In this update, we provide some further details of Fidelity's loan book.

Fidelity's current loan book is comprised of 29 loans, across 20 separate borrowers, with a current value of \$100.1 million. These loans are all secured against New Zealand based property and businesses. The loan book as at 30 June 2009 comprised 32 loans with a value of \$99 million.

Fidelity is not making loans to new clients. Its focus continues to be on working with existing borrowers to sell assets or restructure their loans to enable partial or full repayments, or to enhance Fidelity's security position. It is clearly in wind down mode.

The property market continues to be difficult. Whilst there has been a pick up in the volume of sale transactions, they have been at much lower values than prior to the recent economic and property downturn. This has resulted in limited repayments to Fidelity, which has in turn resulted in a modest level of repayments to the Fund.

Fidelity's financial year end is 31 March. The process for the preparation and audit of Fidelity's financial statements will place an updated value on its loan book. Given the difficult market conditions the value placed on Fidelity's loans is likely to be reduced.

A reduction in value of Fidelity's loans would first be met from Fidelity's accumulated shareholders equity, which currently totals \$15.3 million. Shareholders' equity provides a buffer to protect the Fund's interests i.e. the investor. While we expect shareholders equity to be impacted we will be surprised if that buffer is exhausted.

The depletion of shareholder equity, to the extent that is expected, will cause difficulty for Fidelity in its equity to loan ratios. This in turn will catalyse a review of Fidelity by its lenders. These are respectively the Fund, other NZ Funds' funds and the Bank of Scotland International. All lender facilities rank equal in terms of priority and effectively need to co-operate in terms of any action that may occur. We are currently of the opinion that Fidelity's

existing management structure provides the best prospects for maximising the returns from the loan book and have advocated this view to the other lender.

Fidelity's loan book comprises development properties, some completed and in the sale process, and some still in the development process. Fidelity is a mezzanine lender, which means that on most loans it sits behind a senior lender in terms of priority. At times Fidelity must outlay funds to protect or restructure its interest in some of its loans. The increase in the value of the loan book from that advised in July 2009 reflects interest which has accrued on loans to ultimate borrowers and some additional funding that has been made available by Fidelity to existing borrowers to enhance Fidelity's security position.

We specifically would like to draw your attention to three separately secured loans made to Melview Developments which relate to completed and operating hotels. Over the next three months we anticipate Melview will be seeking a creditors' compromise arrangement in relation to each hotel's operations. Given Melview's extensive activities throughout New Zealand we expect there will be media coverage of these processes. Fidelity is working closely with Melview to support this process which is an important step to enabling Fidelity to achieve the best possible recovery of these loans.

For further information please contact:

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SUMMARY

| | |
|---------------------|-----------------|
| Number of loans | 29 |
| Size of loan book | \$100.1 million |
| Shareholders' funds | \$15.3 million |

LOAN BOOK SEGMENTATION

BY GEOGRAPHY

| Region - security location | Portfolio % |
|----------------------------|-------------|
| Northland | 10.3 |
| Auckland | 40.1 |
| Wellington | 3.7 |
| Central North Island | 21.9 |
| Christchurch | 9.5 |
| Southern Lakes | 14.5 |
| TOTAL | 100.0 |

BY PROPERTY SECURITY TYPE

| Region - security location | Portfolio % |
|----------------------------|-------------|
| Residential homes | 8.7 |
| Residential subdivision | 12.5 |
| Commercial property | 23.2 |
| Apartments | 29.6 |
| Business | 16.0 |
| Land | 10.0 |
| TOTAL | 100.0 |

LOAN INSIGHTS

COMMERCIAL OFFICE BUILDING IN CHRISTCHURCH CBD

This loan was in relation to the development and construction of the newest major commercial office building in the Christchurch CBD, Club Tower. The building was completed in late 2009 and is now 76% tenanted by a number of leading legal and accounting firms plus a multi-national bank. The property is now being internationally marketed for sale by CBRE.

Fidelity's primary security for the loan is a 2nd mortgage over the building plus 2nd mortgages on a portfolio of

other substantial Christchurch and Auckland based commercial buildings.

Loan to security value ratio¹ is 86%.

CENTRAL AUCKLAND PROPERTY INVESTMENT AND REFURBISHMENT

This loan is in relation to the investment in, and refurbishment of the URS Building, in Central Auckland. This property comprises a 4½ level office building with 188 secure car parks. The refurbishment of the building and extension of the existing commercial leases is expected to be completed by the end of 2010, at which stage the building will be marketed for sale. The marketing process is expected to occur in late 2010/early 2011.

Fidelity's security for the loan is a 2nd mortgage over the property. The existing rental income from the building is meeting the interest costs associated with the 1st mortgage. The sale of the building will also enable the 1st mortgage to be repaid.

Loan to security value ratio¹ is 92%.

HOTEL DEVELOPMENT IN WELLINGTON CBD

This loan was in relation to the funding of the development and construction of the Holiday Inn Hotel in Wellington's CBD. The hotel has 280 units, of which 265 have been sold and settled. The senior lender has been fully repaid and repayments have been received by Fidelity which has led to a substantial reduction in Fidelity's loan.

Fidelity's primary security for the remaining loan is a 1st mortgage over the 15 units which are currently being marketed.

Loan to security value ratio¹ is 60%.

RESIDENTIAL LAND SUBDIVISION IN WHANGAREI

This loan was in relation to the development of a 105 lot residential land subdivision and 35 house construction in the northern suburbs of Whangarei. The land subdivision has been completed and over the next quarter the current house construction program will be complete.

The senior lender is presently being repaid through the settlement of pre-sale contracts on both houses and sections. Due to a number of pre-sales not settling

and the general weakness in the residential housing market, a lengthier time frame is expected to achieve loan repayment than originally contemplated. Fidelity is working closely with the developer to enable the sale of remaining sections and houses; however this is expected to take an extended period of time due to current limited demand.

Fidelity's primary security is a 2nd mortgage over the subdivision sections and houses yet to be sold or settled.

Loan to security value ratio¹ is 99%.

(1) Loan to security value ratio is the ratio of the assessed current value of the secured property assets compared to the loan outstanding. A ratio below 100% indicates a full recovery of the loan.

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