

Peter Hutchison
C.E.O., Fund Managers Otago Ltd

THE BENEFITS OF INVESTING IN 'PIES'

Since the introduction of the Portfolio Investment Entity (PIE) rules several years ago, the PIE tax rates have compared favourably to the marginal tax rates that apply to direct investments. The new PIE tax rates that apply from 1 October 2010 increase both the range of investors who benefit from, and the extent of the potential benefits of investing in PIEs.

If you are an investor in the NZ Mortgage Income Trust No. 2 Fund the taxation changes discussed in this newsletter don't affect your investment.

As is clear from the table, the top PIE tax rate will be 28% whereas many investors will pay tax at 33% and 30% on direct investments. From 1 October 2010 investors on a marginal tax rate of 30% can be taxed on PIE income at 17.5% (reduction of 12.5%) and investors on a marginal tax rate of 17.5% can be taxed on PIE income at 10.5% (a reduction of 7%).

The new PIE rates applying from 1 October 2010 and new marginal tax rates applying from 1 April 2011 are:

Taxable Income	Combined Taxable and PIE Income	Marginal Tax Rates from 1 April 2011*	PIE Tax Rates from 1 October 2010
0 – 14,000	0 – 14,000	10.5%	10.5%
0 – 14,000	0 – 48,000	17.5%	10.5%
14,001 – 48,000	14,001 – 70,000	30%	17.5%
48,001 – 70,000	48,000 – 70,000	30%	28%
Over 70,000	Over 70,000	33%	28%

*Composite (average) rates apply for the current year.

PIEs remain attractive for top tax rate investors. There is still a 5% difference in the top marginal rate of 33% and the top PIE rate of 28%. The new PIE rates make PIE investments more attractive to investors on the lower tax rates, who make a significant proportion of retail investors. This is demonstrated in the two examples below:

Investors with total income below \$48,000

The PIE rules will allow income between \$14,000 and \$48,000 to be taxed at 10.5% rather than the normal marginal tax rate of 17.5%. This means that for a retired person receiving Government Superannuation of \$14,000 per year and investment income of \$34,000, the tax rate on the investment income will reduce from \$5,950 to \$3,570 – **a saving of \$2,380**. At an interest rate of 6.25%, this increases the effective pre-tax yield to 6.78%.

Investors with total income of \$48,000 to \$70,000 and taxable income of less than \$48,000

Currently these investors are taxed at 33% on income over \$48,000 when they invest directly and at 30% when they invest through a PIE. Once the new rates come into effect, they can be taxed at 17.5% on PIE income over \$48,000. This means that an investor with just under \$48,000 of direct income can earn \$22,000 of additional PIE income and be taxed on that \$22,000 at 17.5%. This reduces the tax payable on the \$22,000 from \$6,600 to \$3,850 – **a saving of \$2,750**. This converts a 6.25% rate to an effective pre-tax yield of 7.37%.

No action is required by you as an investor. On 1 October 2010 we will automatically change your taxation rate from the old tax rate to the new tax rate. However if your situation has changed and your current tax rate is now incorrect, kindly make contact with us so we can ensure that your nominated tax rate is correct as from 1 October 2010.

The Royal Dunedin Male Choir

6th December • 7:30pm • Dunedin Town Hall • Christmas Concert

NZMIT is proud to support one of New Zealand's oldest choirs - formed in 1886. We have some **TICKETS TO GIVE AWAY** to current investors. Please contact Ruth on **471 6500** or **0800 800 212**. First in first served so be quick!

Investor functions

Thank you to our investors who came along to our two investor functions held during August, where the guest speakers were well received. It was pleasant to report positive trends for both Funds going forward into the future and we look forward to next year's events.





Dunedin investor function 4th of August
Speaker Gordon Parry (right) signs a book for an NZMIT investor.



Fund Managers Otago
Proud Supporter of
Otago/Southland Division
of the Cancer Society

NZ Mortgage Income Trust Fund Facts

Investment Portfolio Statistics		
Fund Size	\$69,742,412	\$10,258,934
Number of Investors	1,706	417
Minimum Investment	\$500.00	\$500.00
Income Payments	Quarterly, floating rate of Return Income can be compounded	Quarterly, floating rate of Return Income can be compounded
Term of Investment	Medium to long term	Medium to long term
Entry fees	Nil	Nil
Exit fees	The Manager has discretion to charge a fee of up to 2% on any money withdrawn 12 months after investment and up to 1% on any money withdrawn more than 12 months but less than 24 months after investment.	The Manager has discretion to charge a fee of up to 2% on any money withdrawn 12 months after investment and up to 1% on any money withdrawn more than 12 months but less than 24 months after investment.
Liquidity as at 14 September 2010 ⁷	2.45%	29.16%
Mortgage Portfolio Statistics		
Number of Mortgages	90	58
Value of Mortgages	\$67,248,560	\$7,385,447
Average Mortgage Size	\$747,206	\$127,335
Average Loan to Valuation Ratio	50.11%	32.77%
Portfolio Commercial Mortgages	43.78%	36.58%
Portfolio Residential Mortgages	50.7%	51.82%
Portfolio Farming Mortgages	5.53%	11.6%
Geographic Spread: North Island	78.89%	26.05%
Geographic Spread: South Island	21.11%	73.95%
Instalment Arrears at 30-90 days	10.59%	Nil
Instalment Arrears at 90 days plus	4.37%	Nil

RETURNS AT A GLANCE



Return for quarter
ending: 30/9/2010

5.00% p.a.¹

P.I.E Pre-Tax Return

(Applies to those changing from a
38% to 30% tax rate)

5.65% p.a.²

Compounded return
past 12 months

4.69% p.a.⁴

The NZMIT P.I.E. Fund is open for investments.

RETURNS AT A GLANCE



Return for quarter
ending: 30/9/2010

6.25% p.a.³

Compounded return
past 12 months

6.40% p.a.⁴

The NZMIT No. 2 Fund is open for investments.

1. The 'Return for the quarter' displayed above for the NZ Mortgage Income Trust P.I.E. Fund is based on a \$1 unit value and on an investor being in the Fund for the entire quarter ended 30/9/2010 and is before tax but after fees and expenses have been deducted and is expressed as a per annum equivalent before tax. Any investor who joined the Fund or withdrew from the Fund during the quarter would not necessarily earn the same return. 2. The above 'P.I.E. Pre-Tax Return' illustrates the per annum equivalent if an investor changes from a tax rate of 38% to the maximum P.I.E. tax rate of 30% which is before tax but after fees and expenses have been deducted and is expressed as a per annum equivalent before tax. Any investor who joined the Fund or withdrew from the Fund during the quarter would not necessarily earn the same return. 3. The 'Return for the quarter' displayed above for the NZ Mortgage Income Trust No. 2 Fund is based on an investor being in the Fund for the entire quarter ended 30/9/2010 and is before tax but after fees and expenses have been deducted and is expressed as a per annum equivalent before tax. Any investor who joined the Fund or withdrew from the Fund during the quarter would not necessarily earn the same return. 4. The 'Compounded return past 12 months' displayed above for the NZ Mortgage Income Trust P.I.E. Fund and the NZ Mortgage Income Trust No. 2 Fund are based on an investor being in the Fund for the entire year ended 30/9/2010 and having elected to have their quarterly income reinvested in further units and calculated before tax but after fees and expenses have been deducted and expressed as a per annum equivalent before tax. 5. Each Funds' details of the return calculation is set out in the respective Registered Prospectus for the NZ Mortgage Income Trust P.I.E. Fund and the NZ Mortgage Income Trust No. 2 Fund. 6. Past returns do not guarantee future performance in respect of both the NZ Mortgage Income Trust P.I.E. Fund and the NZ Mortgage Income Trust No. 2 Fund. 7. The liquidity percentage is that percentage of the total assets of the Fund held in cash or liquid assets. 8. All information in this newsletter is current to 14th September 2010, unless otherwise stated and the figures are unaudited. 9. For further information please contact our office to obtain a copy of the current NZ Mortgage Income Trust P.I.E. Fund and NZ Mortgage Income Trust No. 2 Fund Investment Statement and/or Prospectus or contact your adviser.