

FUND UPDATE

for the period ended 30 June 2020

Fund name: NZ Mortgage Income Trust (No2 Fund) Group Investment Fund
Registered scheme: NZ Mortgage Income Trust (No2 Fund) Group Investment Fund

What is the purpose of this update?

This document tells you how NZ Mortgage Income Trust (No2 Fund) Group Investment Fund ("NZMIT No2 GIF" or "Fund") has performed and what fees were charged. The document will help you to compare the fund with other funds. Fund Managers Otago Limited ("Manager") prepared this update in accordance with the Financial Markets Conduct Act 2013. This information is not audited and may be updated.

Description of this Fund

The NZMIT No2 GIF holds cash deposits with registered banks and loans secured by registered first mortgages over land and buildings. The investment objective is to provide investors with an income return at a level normally better than bank deposits and competitive with comparable investment products.

Total value of the Fund as at 30 June 2020:	\$13,092,279
The date the Fund started:	18 October 2007

What are the risks of investing?

Risk Indicator for NZMIT No2 GIF

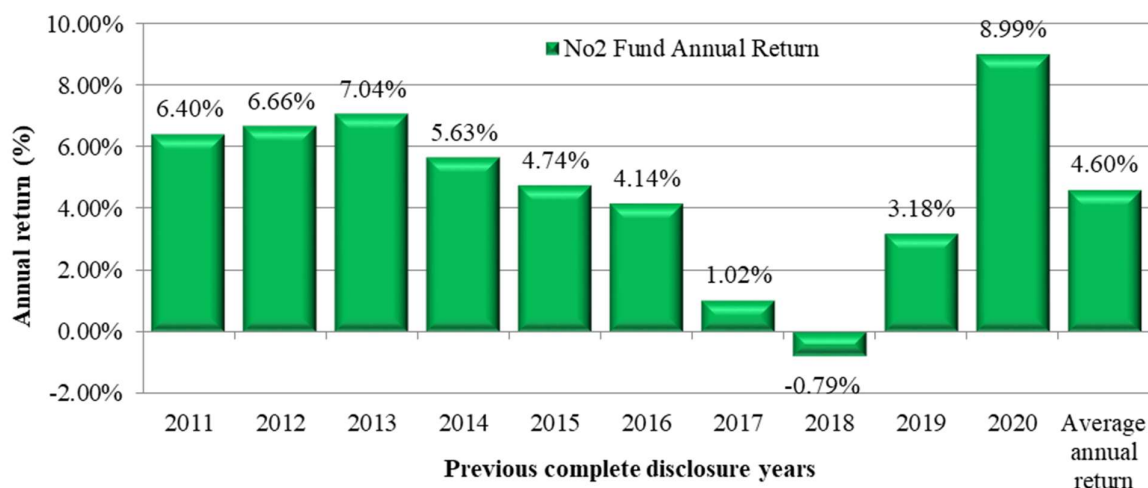
← Potentially lower returns	Potentially higher returns →
1 2 ③ 4	5 6 7
← Lower risk	Higher risk →

The risk indicator is rated from 1 (Low) to 7 (High). The rating reflects how much the value of the NZMIT No2 GIF's assets goes up and down (volatility). A higher risk generally means higher potential returns over time, but more ups and downs along the way. To help you clarify your own attitude to risk, you can seek financial advice or work out your risk profile at www.sorted.org.nz/tools/investor-kickstarter.

Note that even the lowest category does not mean a risk-free investment, and there are other risks that are not captured by this rating. This risk indicator is not a guarantee of a fund's future performance. The risk indicator is based on the returns data for the 5 year period ending 30 June 2020. While risk indicators are usually relatively stable, they do shift from time to time. The risk indicator will continue to be updated in future fund updates. See the product disclosure statement (PDS) for more information about the risks associated with investing in this fund.

How has the fund performed?

	Average over past 5 years	Past year
Annual return (after deductions for charges and tax)	3.13%	8.18%
Annual return (after deductions for charges but before tax)	3.13%	8.18%



This shows the return after fund charges and tax for each year ending 31 March for the last 10 years. The last bar shows the average annual return for the last 10 years, up to 30 June 2020.

Important: This does not tell you how the fund will perform in the future.

*Note: - See * comment at end of document*

The Financial Markets Conduct (Market Index) Exemption Notice 2018 came into force on 17 July 2018. This exemption relates to the requirements in schedule 4 (managed investment products in managed fund) of the Financial Markets Conduct Regulations 2014 that refer to the return on an appropriate market index. As there is no appropriate market index and no suitable peer group index for the Fund, the Fund is exempt from the requirements to provide comparisons of return to an index. See the document entitled “Financial Markets Conduct (Market Index) Exemption Notice 2018” on the offer register.

What fees are investors charged?

Investors in the NZMIT No2 Fund GIF are charged fund charges. In the year to 31 March 2020 these were:

% of net asset value	
(A) Total Fund charges = B + C + D which are made up of -	4.18%
(B) Total management & administration charges = E + F Including -	4.18%
(E) Manager’s basic fee	1.62%
(F) Other management and administration charges	2.56%
(C) Total performance-based fees	Nil
(D) Other Charges	Nil

Investors may also be charged individual action fees for specific actions of decisions (for example, for withdrawing from or switching funds). See the PDS for the NZMIT No2 Fund GIF for more information about those fees.

While the Manager has the ability to charge withdrawal fees, the Manager has historically not charged withdrawal fees, and has decided not to charge withdrawal fees for the foreseeable future.

Example of how this applies to an investor

Small differences in fees and charges can have a big impact on your investment over the long term.

Max had \$10,000 in the fund at the start of the year and did not make any further contributions. At the end of the year, Max received a return after fund charges were deducted of \$300 (that is a 3% of his initial investment). Max paid no other charges. This gives Max a total return after tax of \$300 for the year.

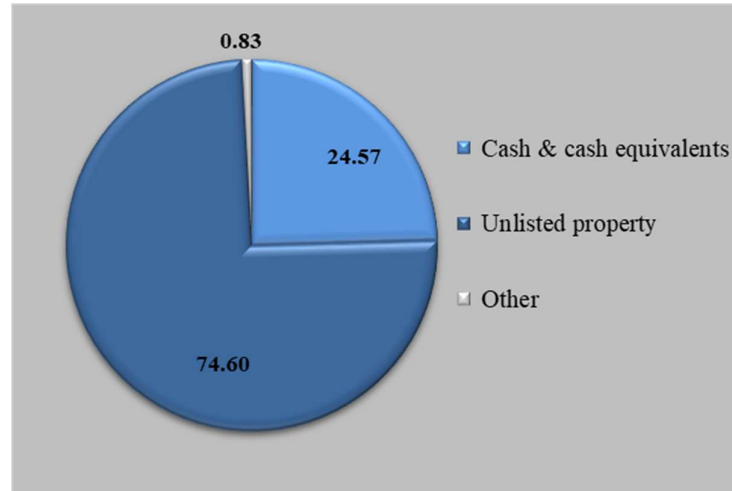
What does the Fund invest in?

The following table shows the types of assets that the fund invests in.

Target investment mix

Cash and cash equivalents	5% - 25%
Unlisted property	75% - 95%

Actual investment mix as at 30 June 2020 (as a percentage of Total Assets)



Cash	Term deposits and deposits on call with NZ registered banks and other liquid assets
Unlisted Property	Mortgage loans secured by first mortgages over land and buildings in New Zealand

Top 10 investments

Name	% of net assets	Type	Country	Credit rating (if applicable)
ANZ Bank	24.74%	Cash	New Zealand	AA-
Loan secured over commercial property in Auckland	4.29%	Unlisted	New Zealand	unrated
Loan secured over rural property in Otago	3.13%	Unlisted	New Zealand	unrated
Loan secured over residential property in Otago	2.99%	Unlisted	New Zealand	unrated
Loan secured over residential property in Auckland	2.75%	Unlisted	New Zealand	unrated
Loan secured over residential property in Otago	2.75%	Unlisted	New Zealand	unrated
Loan secured over residential property in Canterbury	2.62%	Unlisted	New Zealand	unrated
Loan secured over residential property in Waikato	2.57%	Unlisted	New Zealand	unrated
Loan secured over residential property in Canterbury	2.39%	Unlisted	New Zealand	unrated
Loan secured over residential property in Waikato	2.36%	Unlisted	New Zealand	unrated

The total value of the 10 individual assets as a percentage of the net assets of the fund is 50.60%.

As at 30 June 2020 the top six exposures of the fund equalled 18.53% which is less than the 20% benchmark.

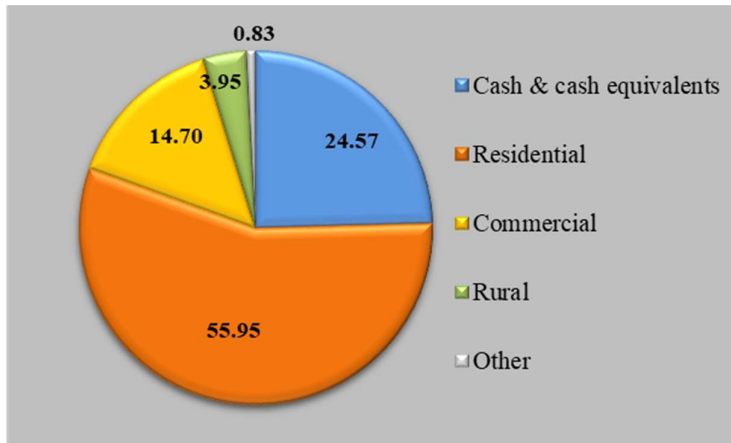
Key Personnel

Name	Current position	Time in current position	Previous position	Time in previous position
Peter Hutchison	Managing Director	5 years 10 months	Chief Executive	6 years 1 months
Lynette Scott	Office Manager	1 years 4 month	N/A	N/A
Lynda Taylor	Compliance Officer	0 years 8 months	N/A	N/A
Ann Burton	Senior Lending Officer	13 years 2 months	N/A	N/A
Ruth Schmelz	Senior Administration Assistant	18 years 0 months	N/A	N/A

Additional Information

The Manager has prepared this additional information in accordance with the Financial Markets Conduct (Managed Funds – Loan Disclosure Requirements) Exemption Notice 2019.

The graph below shows the comparison of the NZMIT No2 GIF assets as a percentage of Total Assets according to asset types as at 30 June 2020.



Cash	Term deposits and deposits on call with NZ registered banks and other liquid assets
Residential	Mortgage loans for which the principal security is residential property
Commercial	Mortgage loans for which the principal secured property is commercial property
Rural	Mortgage loans for which the principal secured property is property.

The table below shows the composition of the mortgage loans expressed as a percentage according to each geographical region and within each geographical region details of the proportion of mortgage loans asset types.

List of regions	Percentage by geographic region	Proportion by asset type: Residential	Proportion by asset type: Commercial	Proportion by asset type: Rural
Northland	0.00%	0.00%	0.00%	0.00%
Auckland	14.94%	6.45%	8.49%	0.00%
Waikato	22.43%	21.01%	1.42%	0.00%
Bay of Plenty	2.84%	2.84%	0.00%	0.00%
Gisborne	2.59%	2.59%	0.00%	0.00%
Taranaki	3.44%	3.44%	0.00%	0.00%
Hawkes Bay	1.57%	0.00%	1.57%	0.00%
Manawatu-Wanganui	2.24%	0.00%	2.24%	0.00%
Wellington	2.98%	2.98%	0.00%	0.00%
Tasman	0.24%	0.24%	0.00%	0.00%
Marlborough	0.00%	0.00%	0.00%	0.00%
Nelson	0.25%	0.25%	0.00%	0.00%
Canterbury	13.12%	9.60%	2.39%	1.14%
West Coast	0.00%	0.00%	0.00%	0.00%
Otago	29.79%	22.12%	3.51%	4.16%
Southland	3.56%	3.51%	0.05%	0.00%

The Fund had no impaired mortgage loans at the time this fund update was prepared.

Mortgage loans are allocated on asset type based on the zoning of the principal secured property (by value) that is set in the local council's district plan, and the use of the funds borrowed. The NZMIT No2 GIF has lending limits, based on the amount of the mortgage loan when compared with the value of the mortgage security portfolio ("LVR") at the time of mortgage loan approval, as follows: -

Loans secured (or principally secured) by mortgage over residential property	Loans secured (or principally secured) by mortgage over commercial property	Loans secured (or principally secured) by mortgage over rural property
Fee simple land and buildings: up to 80% LVR	Fee simple land and buildings: up to 66.7% LVR	Fee simple land and buildings: up to 60% LVR
Leasehold: up to 50% LVR	Leasehold: up to 50% LVR	Leasehold: up to 50% LVR
Vacant land with power, water, sewage and associated services ("Services") completed: up to 70% LVR	Vacant land with power, water, sewage and associated services ("Services") completed: up to 60% LVR	
Land which does not have Services: up to 50% LVR	Land which does not have Services: up to 50% LVR	Land which does not have Services: up to 50% LVR

LVR means loan-to-value ratio. LVR shows the amount of a loan as a percentage of the value of the property that secures the loan. The lower the LVR, the lower the amount of the loan relative to the value of the secured property.

Litigation Risk

There is a risk that Fund borrowers and/or other third parties may bring claims against the Fund as lender or mortgagee. Depending upon the nature and extent of any claims brought against the Fund, the income returns of the Fund and/or the capital value of the Fund may be affected.

During 2016, the Fund received notice of District Court proceedings issued by the Crown seeking a forfeiture order for properties over which the Fund held first mortgages. That action was successful based on the finding that a criminal offence was committed by one of the Fund's borrowers. The District Court decision was unsuccessfully appealed to the High Court. Leave to appeal the High Court decision in the Court of Appeal was granted. The outcome of this appeal was released at the time of preparing this quarterly update. The appeal was unsuccessful. A further review of that decision is underway and a decision made on where to next in the coming weeks.

The fluctuations in the graph on Page 1 of the update are as a result of the amount transferred to the Crown after the District Court decision which reduced the net assets of the Fund and therefore the unit price valuation. Legal fees incurred since the transfer to the Crown have been met from the income earned by the Fund prior to any distribution to investors each quarter therefore they did not impact the unit price valuation during that period. The civil action taken by the Fund to recover part of the loss was ultimately successful and resulted in the positive 2020 result reflected in the upward movement in the unit price valuation.

In the meantime, the Fund will continue with the policy pay out redemptions at 90 cents in the dollar rather than the unit valuation for all units in the Fund issued prior to 15 September 2016, to take into account the impact of the Crown forfeiture Order. This is to ensure that all investors who had invested in the Fund prior to 15 September 2016 (being the date on which investors in the Fund were notified of the redemption retention associated with the forfeiture) are treated fairly. Once the matter is finalised, if the effect on the value of the units in the Fund is 10 cents per unit or less, then the difference between the redemption funds retained and the loss suffered by the Fund will be paid out to those redeeming investors.

All unitholders who have invested or invest in the Fund after 15 September 2016 will be unaffected by the 90 cents in the dollar redemption restriction.

Further information

You can also obtain information, the PDS for the NZMIT No2 GIF and some additional information from the offer register at www.business.govt.nz/disclose.

Notes

** The last column of the bar graph on page 1 shows the average annual return for the 10 years ending 31 March 2020. The results in 2017, 2018, 2019 and 2020 were materially affected by changes in unit value due to a significant lawsuit [negatively in 2017, 2018 and 2019 but positively in 2020 due to a substantial settlement in favour of investors].*